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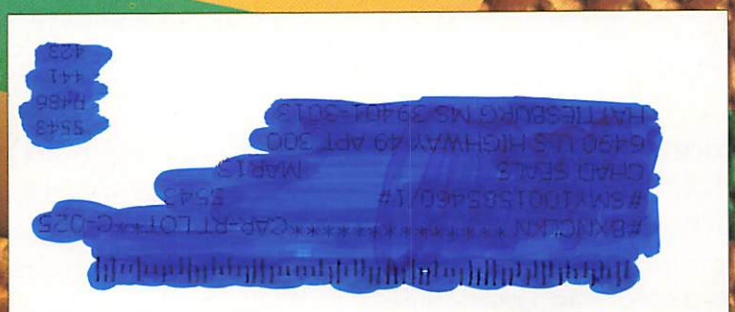
SmartMoney

THE WALL STREET JOURNAL.

WHY MUTUAL FUND GUARDIANS ARE FAILING

$12 TRILLION OF YOUR MONEY

HOW TO PROTECT YOURSELF P. 50



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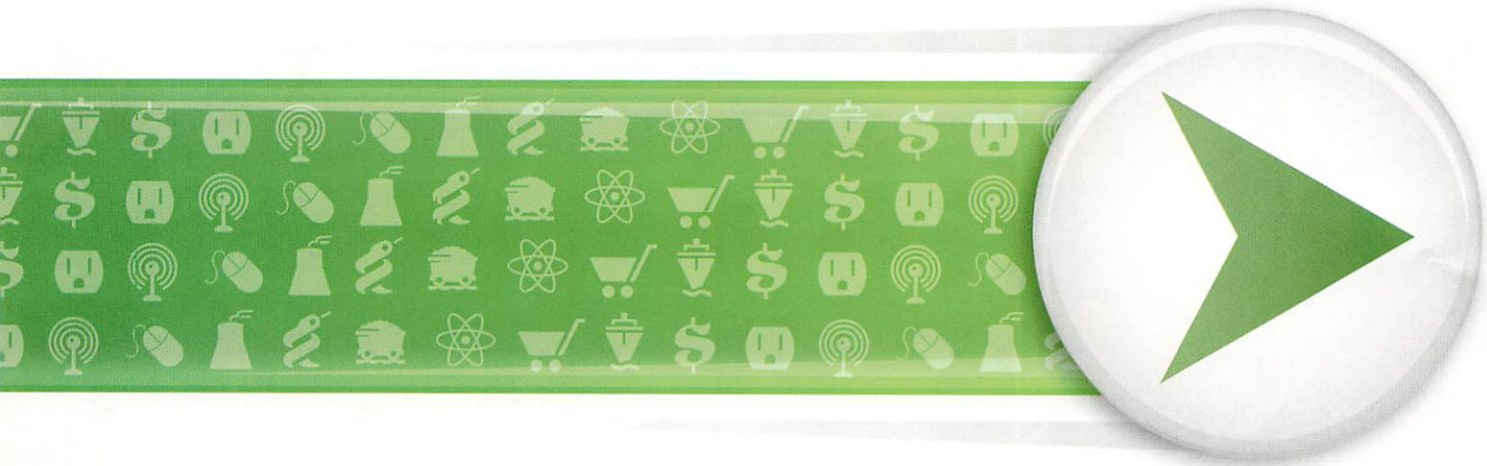

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615167.2.0

"HEY.

SORRY, DID I WAKE YOU UP?

OH I FORGOT YOU'RE SIX HOURS AHEAD. NOT BEHIND. MY BAD.
YEAH, I'M STILL HERE. WAITING ON MY DIM SUM AND THEN I'LL BAIL.
YOU KNOW. JUST ANOTHER FRIDAY NIGHT IN NYC.

ALMOST TEN O'CLOCK. GUESS I DON'T CARE.

I'M LIKE, AT LEAST WE ARE WORKING ON SOMETHING GOOD FOR A CHANGE.
OH, ME AND MY PARTNER, SULLY. NO. SHE'S A GIRL. SHORT FOR SULLIVAN.

NO. SHE'S COOL. FUNNY, YOU KNOW?

SHE'S DIFFERENT, I GUESS. I DON'T KNOW. WE JUST WORK TOGETHER.
WE DID GO TO A MOVIE BUT THAT'S ALL.
AND ONLY BECAUSE WE HAD TO WORK ON SATURDAY AND HAD LIKE FOUR HOURS TO KILL

BEFORE THE BOSS CAME IN FROM GOLFING AT HIS MANSION
OR WHATEVER HE DOES.
NO, MAN. IT'S NOT LIKE THAT WITH MEGAN.
I NEVER USE HER FIRST NAME. WEIRD.

WHATEVER. SHE'S GOT A BOYFRIEND. HE'S NOT COOL BUT...WHATEVER.
WE'RE JUST FRIENDS.

SHE SAYS HE NEVER GETS DIM SUM WITH HER, WHICH IS WEIRD BECAUSE I KNOW IT'S HER FAVORITE."

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SmartMoney

An inside look at what some call the most comfortable job in corporate America.

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Mutual fund directors have one task: to look out for investors. But are they really protecting them? SMARTMONEY investigates.

Trading Places p. 60
In an excerpt from his new book, humorist Joel Stein tries his hand at the high-speed world of day trading.

Pack Mentality p. 66
A record number of shops, restaurants and hotels are letting pets in. Is everyone happy?

10 Things Divorce Attorneys Won't Tell You p. 72
Our heart-to-heart on why it costs so much and takes so long to get out of wedlock.

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Photograph by Media Bakery

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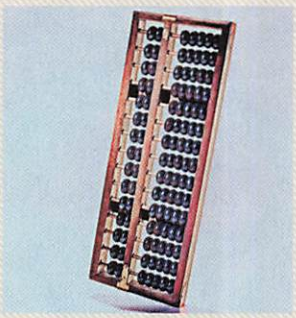

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Toothless Watchdogs

ALTERNATIVE INVESTMENTS may come and go (how are your cocoa futures doing these days?), but mutual funds remain the lifeblood of the American portfolio, with roughly 7,700 of them quietly overseeing $12 trillion in assets. And yet, far too few of the funds are the lean stock-picking machines we'd like to see. Only 20 percent beat Standard & Poor's 500-stock index in 2011, and many charge expenses and fees that eat up whatever good returns they do generate. Some companies also fudge their marketing, making it hard for customers to know what they're investing in (imagine a "small-cap stock fund" full of Treasury bonds). It all raises the question, Why isn't there oversight here—some watchdog trying to improve these funds?

Oh, wait, it turns out funds *do* have watchdogs. Every fund, in fact, has its own board of directors that is charged with representing just one constituent: you. Just as a corporate board might oversee a company, these boards are supposed to challenge fund managers to perform well and keep fees down. But after hearing that far too few were doing that job, we asked staffer James Sterngold, a veteran investigative reporter who has shared in a Pulitzer Prize, to take a look. Mind you, this isn't a world that's easy to get much information on: Fund directors tend to say little about the meetings they hold, while pocketing some handsome, six-figure paychecks for this work.

James's story is called "It's Not Our Job," and we believe you'll agree that it's an apt description of some directors' attitudes. Since the crash of 2008, there has been much talk about financial-sector reform, both from the government and the industry itself. The role fund directors are playing, or not playing, is worth adding to the conversation.

A BLIND EYE: Mutual fund boards are supposed to oversee $12 trillion in investor assets. Are they up to the task? **Page 50**

NO MORE "NO PETS": Pet owners are often big spenders, so Fido may now be welcome at your local bistro. **Page 66**

TOP-DOWN APPROACH: The auto industry's challenge: getting younger drivers to love convertibles. **Page 78**

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

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SmartMoney
THE WALL STREET JOURNAL.
PUBLISHED BY DOW JONES & COMPANY, INC.

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Feedback

Letters, Tweets and Blog Posts From Our Readers

Big Isn't Always Better

I agree with your article "Too Big to Succeed" (May). A small fund with good cash flow can be nimble and more quickly recognize changes in the markets. I would never buy a megafund, even with the lower costs, as I think that they can get out of sync for long periods of time or revert to being a closet index fund.

—Nancy Langwiser-Kear
Wellesley, Mass.

Buffett himself has made similar statements about how it can be harder to make the same level of returns once you hold such large amounts of assets. Another problem is that 401(k) plans often have very limited selections that include those megafunds. People should study the various funds with the strategy they plan to use and not jump into the first one that catches their eye.

—Anita Wilcox
Burlington, Mass.

Bleeding Cash

This is one more nonmedical person entering the medical field ("Marketing M.D.s," May), which is why health care costs are rising. There was a time when health care was between doctors, patients, pharmacists and hospitals (including nurses). Now, there are electronic-medical-record companies, marketing firms, medical and device reps, pharmaceutical companies and others. Perhaps I'm just jealous: I'm a relatively young doctor, and many device reps make more than I do. And physician reimbursements continue to plummet. Nothing will change until nonmedical people stop crowding to put their hands in the health care pot!

—Gregory Broderick-Villa
Oakland, Calif.

The Bright Side

I absolutely agree with Dyan Machan's column about solar electricity (Smart Ideas, May). In 2009, we installed solar panels on the roof of our home. Both the state rebate and the federal energy tax credit were available and made our initial rate of return very high. But the value of the credits in New Jersey has dropped and clearly affected the appeal of solar as an investment. I hope the state will take steps to provide a better balance between supply and demand for the credits.

—Joel Studebaker
Princeton, N.J.

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Our Real-Time Advice blog finds the personal finance angle on everything from foreign government shake-ups to the latest market swing. Many of these posts can also be found on *The Wall Street Journal's* home page, WSJ.com.

smartmoney.com/advice

ANSWERS

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Get on the money list

THESE TOURING GOLF PROFESSIONALS HAVE GONE BALLISTIC

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Sean O'Hair	John Rollins	Tom Pernice Jr.	Jarrod Lyle	Omar Uresti	Olin Browne	*and growing!*

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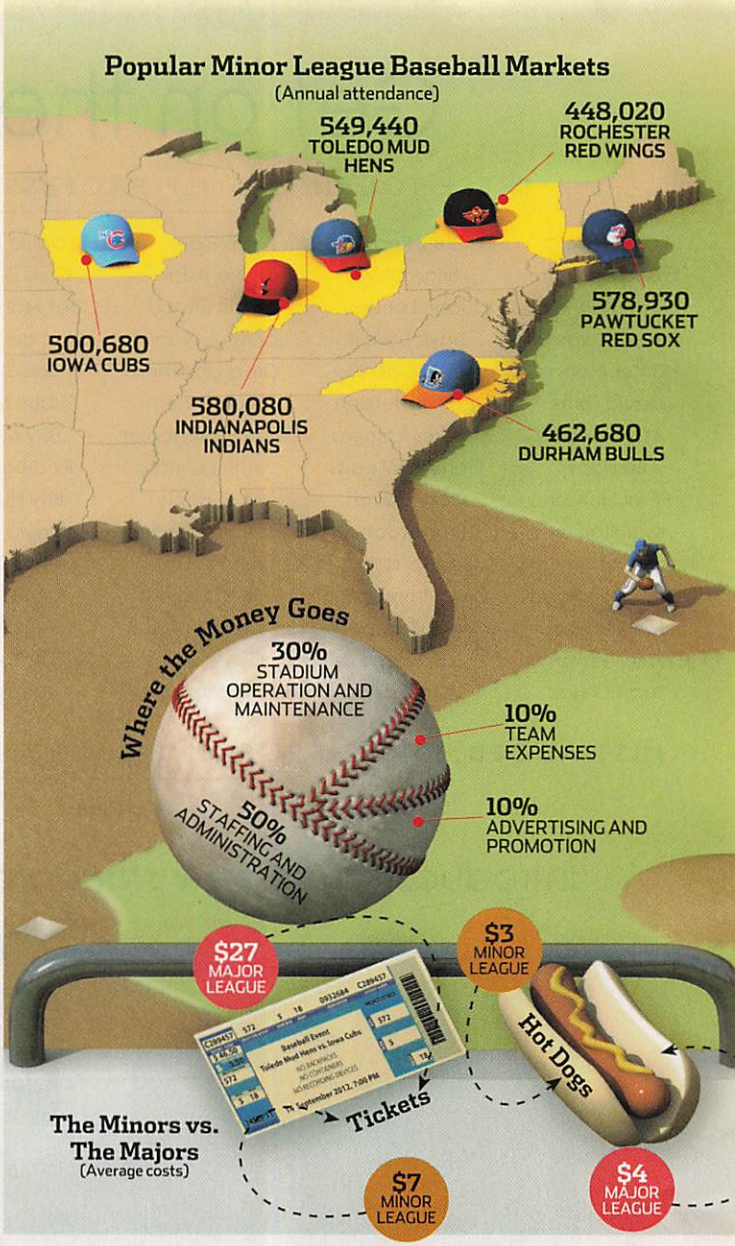
PlayMoney

Money Ball

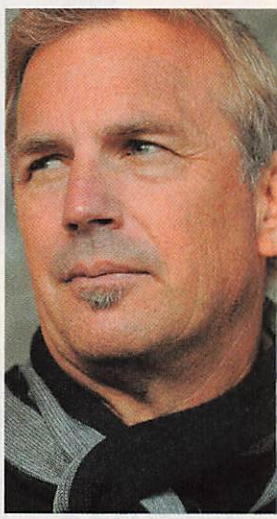
The roster of Minor League Baseball owners is surprisingly star-studded: Bill Murray, Earvin "Magic" Johnson and Jimmy Buffett have all bought into America's game. Want to join the team? Buying your own club isn't cheap—expect to pay at least $9 million or so for a team affiliated with Major League Baseball, says Larry Grimes, president of merger and acquisition consulting firm the Sports Advisory Group—but it is possible to pick up a minority interest for around $100,000. Investors get perks like a seat in the owners' box and, if the club pays a dividend, a cut of the profits.

Of course, investing in the minors is a totally different ball game than bankrolling a major league club. Star players and winning teams, for one, aren't a big factor when it comes to attendance. Instead, says Tom Lang, SVP at sports investment banking firm Moag & Co., the most successful clubs are those with nice stadiums and a fan base located several hours from the nearest major league ballpark. Owners must also contend with the league's slumping attendance—and the fact that their MLB affiliate could swoop in and pilfer their star sluggers at any time. And don't think your cash buys you a say in who plays: "You're not qualified for that," says Sports Advisory's Grimes. *—Linda Lacina*



A Baldwin Sucks It Up

What He Did: Are the '90s back already? Still no sign of a grunge revival, but slightly faded movie stars Stephen Baldwin and Kevin Costner are once again in the headlines. Baldwin, the youngest of the blue-eyed acting clan, is suing Costner for allegedly cutting him out of a nearly $4 million windfall. He claims he bought a 10 percent stake in a technology that separates oil from water, developed by Costner's company CINC Industries. Baldwin says he cashed out for $500,000 the day before oil company BP purchased $52 million worth of the devices, and alleges that Costner and his associates misled



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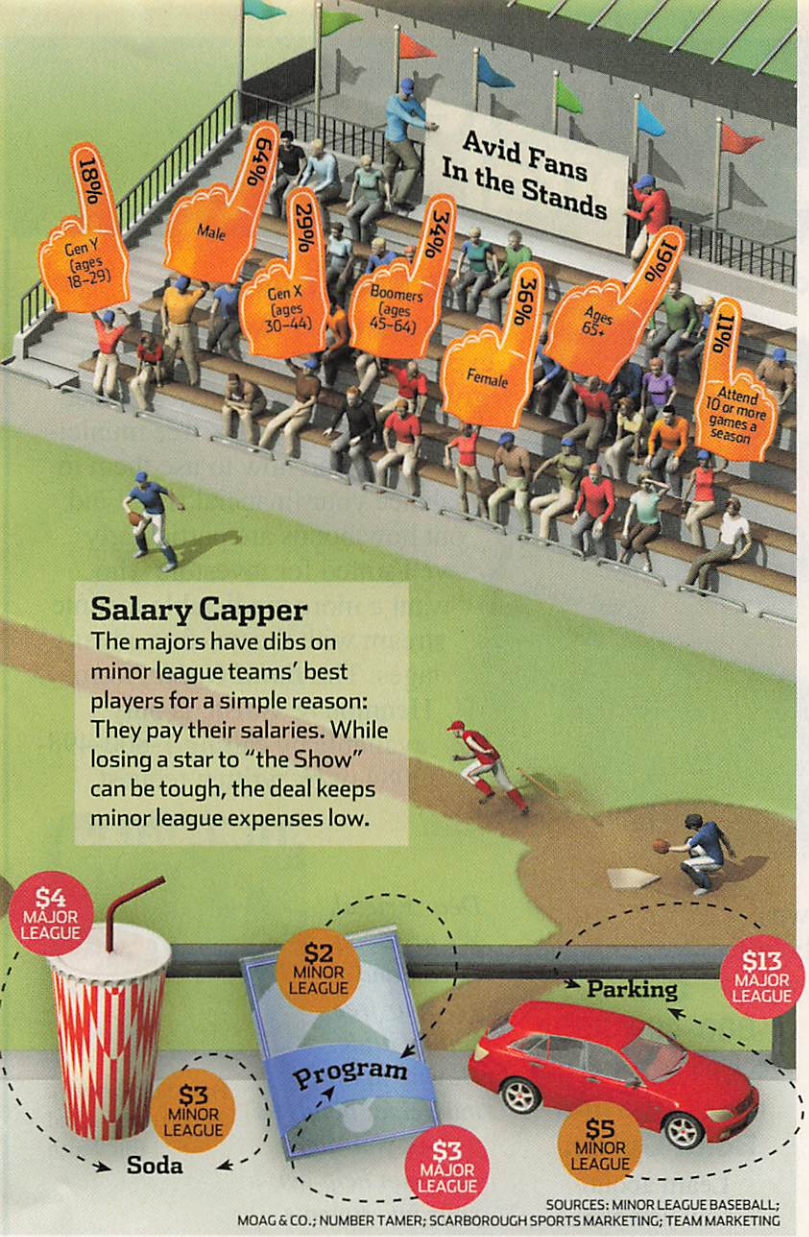

Avid Fans In the Stands
18% Gen Y (ages 18–29)
64% Male
29% Gen X (ages 30–44)
34% Boomers (ages 45–64)
36% Female
19% Ages 65+
11% Attend 10 or more games a season

Salary Capper

The majors have dibs on minor league teams' best players for a simple reason: They pay their salaries. While losing a star to "the Show" can be tough, the deal keeps minor league expenses low.

SOURCES: MINOR LEAGUE BASEBALL; MOAG & CO.; NUMBER TAMER; SCARBOROUGH SPORTS MARKETING; TEAM MARKETING

PHOTOGRAPHS BY DARIO CANATORE/GETTY IMAGES (BALDWIN); INGO WAGNER/CORBIS (COSTNER)

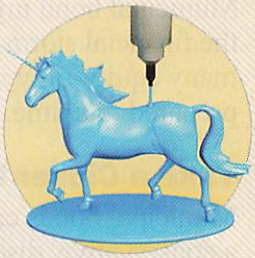
him about BP's plans. (Costner's lawyers are disputing the charges; both actors declined to comment while the case is pending.)

What Went Wrong: Baldwin may think he bailed out too early, but experts say it normally might have been the right move, because big oil companies are notoriously resistant to new technology. But the CINC deal happened soon after BP's oil spill in the Gulf, and the firm was in "crisis mode," says Pavel Molchanov, an energy analyst with Raymond James. Private-equity investors say that, in the wake of the spill, companies like CINC have a better shot, since oil companies are now spending more on prevention.

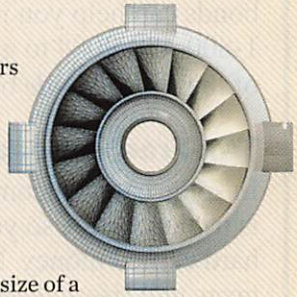
What You Can Learn: Because tech used to clean up spills is rarely needed, Robert Peterson, an oil-industry consultant with Charles River Associates, suggests looking into broader preventive and safety measures, as well as other environmentally friendly innovations. One way to get in: A growing number of oil companies, including Chevron, have founded their own venture-capital funds to invest in new technology. *—Jen Wieczner*

Treasure Hunt

DIY projects have come a long way since the days of macramé and model trains. Now, 3-D printers let people, yes, "print" three-dimensional objects at home, while companies can use them to create prototypes. Wohlers Associates, a consulting firm that tracks the devices, says sales of 3-D printing products and services will nearly double to $3.1 billion by 2016.



HOMEMADE 2.0 Ready to turn your living room into a factory capable of pumping out toys, figurines and other trinkets? MakerBot Industries, in Brooklyn, N.Y., sells a $1,750 microwave-size Replicator that creates 3-D items in two colors. The device uses computer-generated design to build an object one thin plastic layer at a time.



PRINT A PLANE Industrial 3-D printers are used to make small batches of intricate products on the cheap. South Carolina firm 3D Systems deploys a $750,000 printer the size of a Volkswagen to make specialized parts for F-18 fighter jets. The firm's sales topped $230 million in 2011, and it plans to roll out a $1,300 version for home use this year.

FAST FABRICATION San Francisco firm Bespoke Innovations uses 3-D scanning and printing to make a prosthetic-leg covering that matches the wearer's opposite limb. The firm, which charges $4,000 to $6,000 per covering, has received $3.7 million in venture funding. *—Tania Karas*

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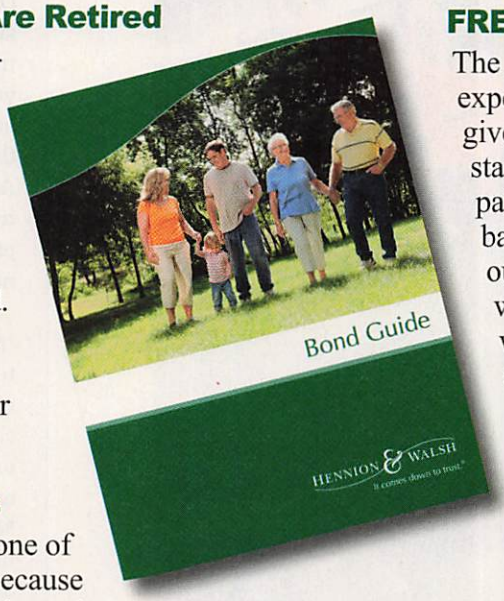

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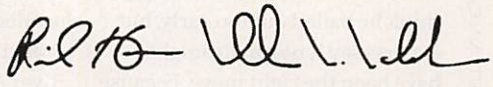

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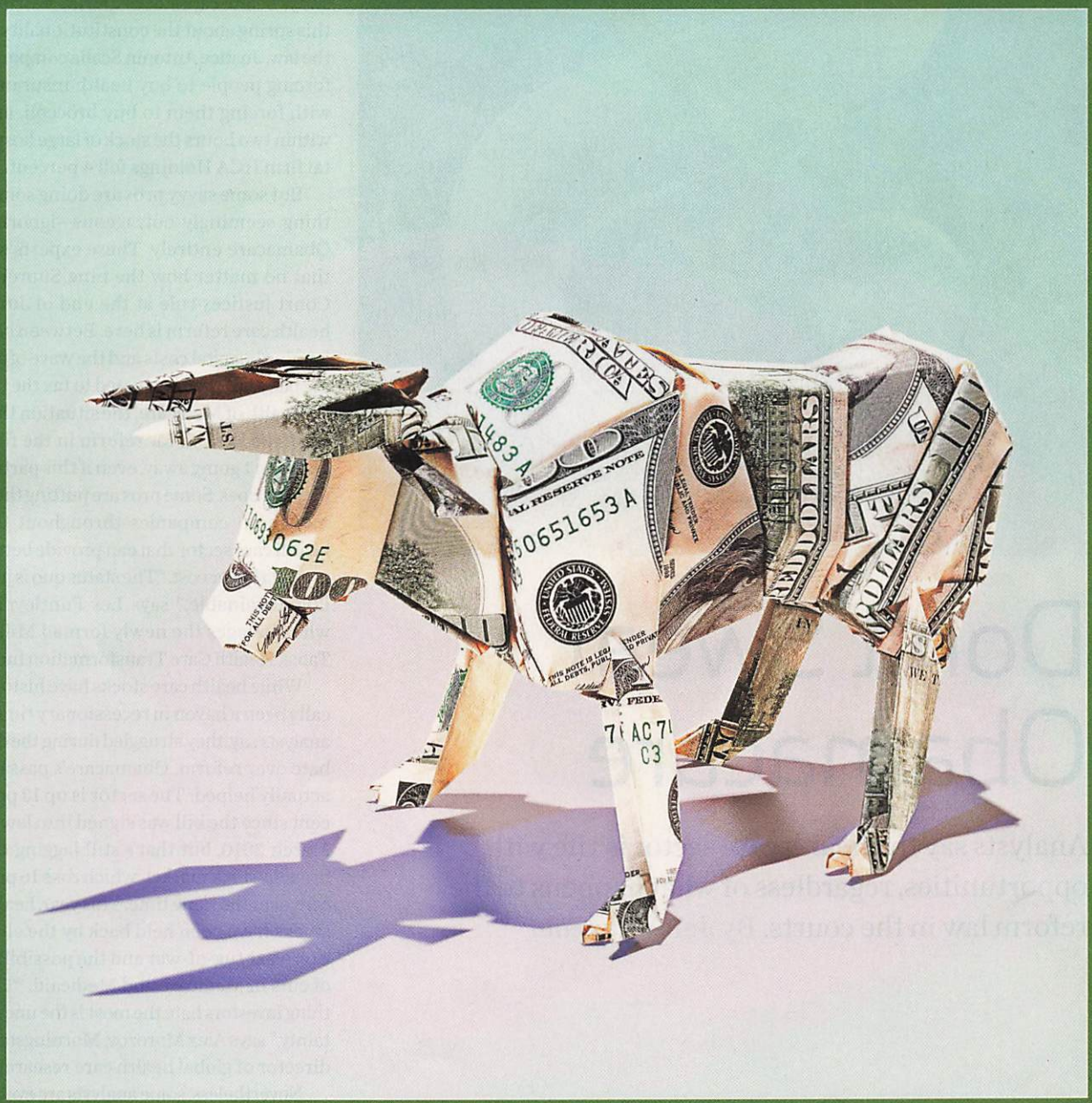

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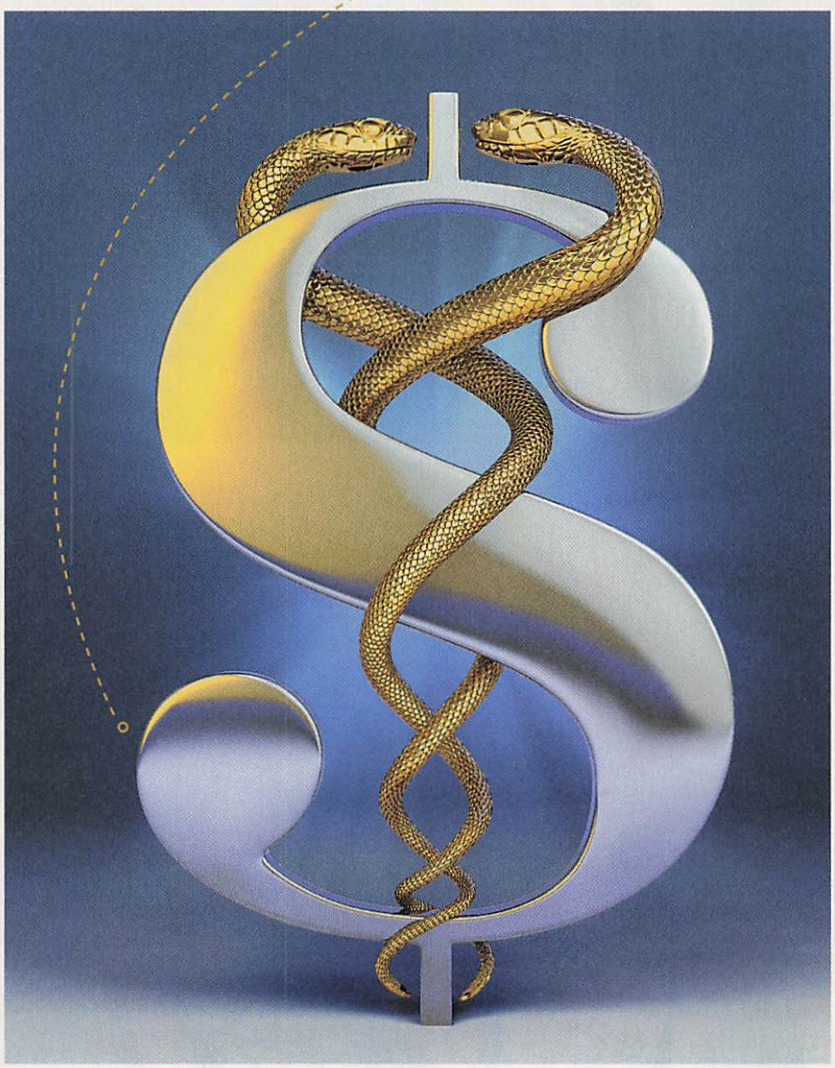


Don't Sweat Obamacare

Analysts say the health care sector is rife with opportunities, regardless of what happens to the reform law in the courts. By Jen Wieczner

FORGET WHETHER Obamacare will change the cost of a doctor visit; many investors have a bigger question when it comes to the fate of the Patient Protection and Affordable Care Act: How will the Supreme Court's sure-to-be-landmark ruling on the health care reform law affect their portfolios? Even the way a Supreme Court justice speaks sways health care stocks. During hearings this spring about the constitutionality of the law, Justice Antonin Scalia compared forcing people to buy health insurance with forcing them to buy broccoli, and within two hours the stock of large hospital firm HCA Holdings fell 4 percent.

But some savvy pros are doing something seemingly outrageous—ignoring Obamacare entirely. These experts say that no matter how the nine Supreme Court justices rule at the end of June, health care reform is here. Between ballooning hospital costs and the wave of aging baby boomers expected to tax the fiscal health of Medicare, the situation that spawned the call for reform in the first place isn't going away, even if this particular law does. Some pros are putting their money on companies throughout the health care sector that can provide better care at a lower cost. "The status quo is just not sustainable," says Les Funtleyder, who manages the newly formed Miller Tabak Health Care Transformation fund.

While health care stocks have historically been a haven in recessionary times, analysts say, they struggled during the debate over reform. Obamacare's passage actually helped: The sector is up 13 percent since the bill was signed into law in March 2010, but that's still lagging the broader stock market, which rose 16 percent over the same time. This year, health stocks have been held back by the election-year tug-of-war and the possibility of cuts in Medicare and Medicaid. "The thing investors hate the most is the uncertainty," says Alex Morozov, Morningstar's director of global health care research.

Nevertheless, some analysts are eyeing

Illustration by Ryan Etter for SmartMoney

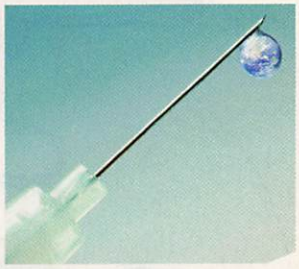
companies that provide options to help lighten the load on the system, from outpatient services to medical devices and tests that reduce infection rates and hospital stays. Insurers might have the most to gain or lose in the Supreme Court decision, but fund managers are betting on a few managed-care companies, such as UnitedHealth Group (UNH), WellPoint (WLP) and Humana (HUM), which have local networks that keep costs down for patients and national infrastructures to spread out their costs. Their stocks, as a group, analysts say, are inexpensive. UnitedHealth, which trades at 11 times 2012's expected earnings, has been buying up physician practices in order to more closely control health care spending. Humana also is moving into the care-providing business. With its acquisition of Concentra, Humana now runs hundreds of urgent-care facilities and work-site clinics. WellPoint's dominance in more than a dozen major markets allows it to negotiate better insurance rates. It also trades at only eight times estimated profits.

Kris Jenner, manager of the T. Rowe Price Health Sciences fund (who sat in on the Supreme Court hearings), has invested in SXC Health Solutions (SXCI), a health care technology firm that after acquiring one of its own clients last year, transformed itself into a pharmacy-benefit manager, or PBM. PBMs process prescriptions for big groups, such as insurers or large corporations, and use their size to negotiate discounts. The move, says Jenner, allows the company to rival Express Scripts and offer better services at a lower cost. "If you can do both, you're all the more valuable," he says.

Some experts say the best way to slash health care costs is to treat people faster or more effectively. Companies that can determine which drug will work on a particular patient or screen for diseases without surgery will benefit from the trend toward preventive medicine, says Dave Blaszczak, a senior health policy analyst at Potomac Research Group. Exact Sciences (EXAS), for one, is developing a DNA test for colorectal cancer that could, in some cases, replace a colonoscopy. Another way to reduce hospital spending is to get people home sooner, so Funtleyder likes Intuitive Surgical (ISRG), which develops robotic devices that make it easier to perform minimally invasive operations, lowering the rate of infections. "Everybody wants to get better faster," Funtleyder says. "Presumably, if you get better faster, it will also be cheaper."

Perhaps one of the biggest threats to the American health care system—the millions of baby boomers hitting retirement age—could also be investors' greatest opportunity. Many of those new retirees will need hip, knee and joint replacements, along with advanced disease care, which could mean a windfall for firms that provide those services. Fund managers are looking at firms making innovative cancer and heart disease treatments, as well as dialysis firms such as DaVita (DVA), which runs facilities that treat patients with kidney disease. A major contributor to these companies' success is also a major risk factor for those ailments: America's obesity epidemic. "I hate to say it's a positive trend for the health care space, but as far as a tailwind for the sector, it is very positive," says Morozov. And, he adds, it isn't going away anytime soon.

To be sure, experienced investors say that, for now, it's impossible to remove the Supreme Court uncertainty from the equation. Analysts and fund managers are basing investments largely on their own hypotheses of what the justices are thinking. Funtleyder says he hopes to make money on the market confusion surrounding the ruling: "We're just assuming that investors will overreact one way or the other."

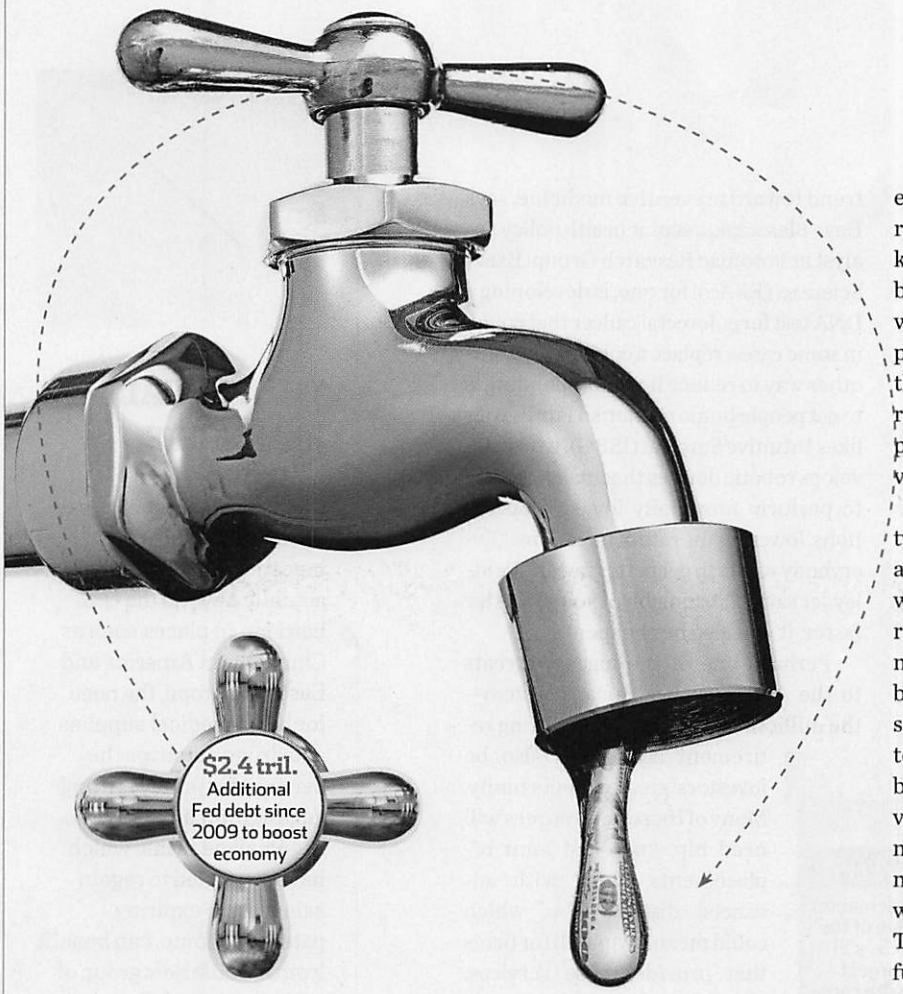


THE GLOBAL DIAGNOSIS

Some investment pros say the best health care investing opportunities are actually beyond the U.S. borders. In places such as China, Latin America and Eastern Europe, the need for basic medical supplies and drugs outstrips the demand for pricey cutting-edge equipment. So some Big Pharma firms, which have struggled to regain sales lost to expiring patents at home, can benefit from a whole new group of patients abroad. Two that pros are buying now:

Johnson & Johnson (JNJ) The maker of Band-Aids and other basic medical necessities is well-positioned to sell more stuff, thanks to the growth of the world's middle class, analysts say.

Sanofi (SNY) This French firm gets a third of its sales from emerging markets and has enough cash flow to buoy it if it hits snags in the U.S., says Derek Taner, manager of the $1 billion Invesco Global Health Care fund.



The End Of Free Money

Regardless of whether the Fed ends its bond-buying program this summer, experts say, investors need to prepare for rising rates. By Elizabeth O'Brien

THE ECONOMY HAS been wobbly for years now, like a toddler on unsteady legs. And all along, the Federal Reserve has hovered like an anxious parent, extending a hand at the first sign of a stumble. But analysts say the time's coming for the Fed to let the economy walk on its own, and investors should take steps to prepare.

The latest effort by the Fed to encourage borrowing for everything from homes to new businesses—Operation Twist—is scheduled to end this summer (it came on the heels of three years' worth of other programs). Whether the Fed extends Twist or starts another round of rate-suppressing moves isn't the point, some experts say. The fact is, the stimulus will eventually end, and when it does, interest rates will rise. The Fed says it intends to keep short-term rates low until late 2014, but analysts say there's no guarantee it will wait that long if the U.S. economy improves. "By the time investors figure out that rates have gone up, the damage is already done," says James Angel, associate professor of finance at Georgetown University's McDonough School of Business.

In other words, investors should tweak their portfolios now, experts say. Of all bond types, Treasurys perform the worst when interest rates climb. Rising rates typically signal an improving economy; Treasurys do better in tough times, because investors flock to their perceived safety. Most pros recommend that investors reduce their exposure to Treasury bond mutual funds. Those who hold individual Treasurys needn't fret about losing money, but it's likely the interest payments from the bonds won't keep pace with inflation. Investors could swap their Treasury fund for a floating-rate bond fund, whose payments get reset upward, along with interest rates, or move into high-yield corporate bonds, whose prices are not nearly as affected when the Fed raises rates (see "A Happy Medium," on page 26). Other advisers are going a step further and recommending that clients reduce their exposure to bonds, period. Deborah DeMatteo, an adviser in Goshen, N.Y., says investors should now consider trimming their allocation by as much as 10 percentage points.

The Fed's withdrawal from the bond market could spark some volatility in both stocks and bonds, experts say. DeMatteo recommends using stock market dips as a buying opportunity. Despite the short-term uncertainty, there will be a silver lining when Federal Reserve Chairman Ben Bernanke withdraws his support: "If we see him step away, I would feel the economy is really improving," DeMatteo says. And those next-to-nothing yields on savings accounts? They'll rise along with interest rates.

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Ready for Takeoff?

JetBlue's CEO says the airline can make investors money. That would be radical for the industry. By Elizabeth O'Brien

AIRLINES, IN GENERAL, are terrible long-term investments. American, United and a slew of others have, at one time or another, filed for Chapter 11. Famed investor Warren Buffett once said that "a farsighted capitalist" would have done investors a huge favor by shooting down Orville Wright during his famous 1903 flight. JetBlue CEO Dave Barger understands the sentiment: The airline business, he says, is "not for the faint of heart."

Take his own company, for example. JetBlue's stock price is down 81 percent since it debuted in 2002. Still, Barger is hoping to convince investors that his airline can break the mold. And he's been busy making the same pitch to his employees, too. Everyone from the company's baggage handlers on up gets a tutorial on free cash flow, return on invested capital and other financial concepts at JetBlue University in Orlando. "We let people know that if we don't earn the cost of capital, the company won't grow, and it won't be successful long-term," Barger says.

The 54-year-old grew up, literally, in the industry (he's the son of a pilot) and has worked for airlines for 30 years. He was part of JetBlue's founding team in 1998. In May 2007, a few months after the airline canceled nearly 1,700 flights because of winter storms, the airline's board of directors replaced then-CEO David Neeleman with Barger. Besides the usual complaints from passengers about the state of flying in the U.S., Barger has had to deal with a disgruntled JetBlue flight attendant who slid down an emergency chute and a sick pilot whose erratic behavior forced an emergency landing. ("Of course, our hearts go out to the pilot and his family," Barger says. "It's such a one-off event.")

Air travel has rebounded from its recessionary lows, but so have costs. Jet-fuel prices, which can account for as much as 40 percent of an airline's expenses, are up significantly. In response, many carriers have cut the number of flights they offer. "At these fuel prices, they realize they need to focus on the more profitable routes," says Savi Syth, an analyst at Raymond James. JetBlue is taking a different route, however. It's made a big push into Boston and the Caribbean. SMARTMONEY sat down with Barger at JetBlue's new headquarters in New York City to talk about the company's unconventional approach to growth and why investors should be patient.

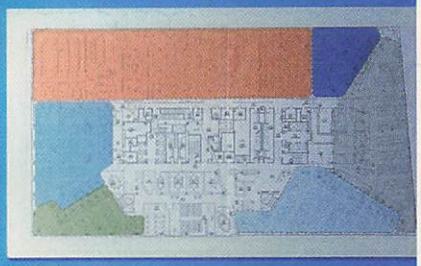
JetBlue is 13 years old now. How has the airline evolved since its inception?
It's not a hypergrowth company like in the past. When you look in the history books, post-1978, when the airline industry deregulated, we're the only pure start-up airline to fly into our second decade without some type of event, usually a merger or bankruptcy.

JetBlue is not the same low-cost carrier it was when it started, right?
It's a fair characterization. There is a

Photograph by David Yellen for SmartMoney

OR

70%: Drop in airline stocks since 2002



value proposition at JetBlue—new planes, comfortable seating, in-flight entertainment. We don't overbook. In the early years, it was all about fare, fare, fare. We still want a fair fare, but I can't stand the word *discount*.

A lot of rivals are reducing flights. Why are you expanding in Boston and the Caribbean?
We've been a little penalized by people saying that we're not disciplined. But we're 100 flights a day in Boston, and growing. To just stop? That would not only be foolish but also reckless. To not grow means we're not listening to some of our largest corporate customers.

Some analysts believe it will take a long time—and cost a lot of money—for JetBlue to dominate in Boston.
These business markets do take longer to mature, because corporations are so wedded to their miles and their loyalty programs. But Boston could be nicely profitable this year, which would be unprecedented given the amount we've invested there.

What about JetBlue's increasing costs, particularly maintenance?
The new airplanes we bought in the mid-2000s are hitting their maintenance cycle. The year-over-year increase in our maintenance, material and repairs costs was 23 percent last year, and we believe it will be up 30 percent this year. That's a big number on a relatively small base number, but then it really flattens.

What do you say to investors who are concerned about the firm's profits?
Our earnings are quite strong and further improving. Oil is close to 40 percent of our unit cost. [But] we've been able to maintain earnings and strengthen the balance sheet and drive free cash flow in the past three years.

Would you rebuff any acquisition offers if they did come?
We are a public company, so we work for the shareholders. You have to take the telephone calls. That's part of our job. But we believe our organic growth plan is the best path forward.

Window or aisle seat?
Cockpit. I like the jump seat since you spend time with the crew.

BLUE PLANES IN THE BLUE SKY

JetBlue was ranked seventh among U.S. carriers by total passengers in 2011, up from ninth in 2010. Its planes are 82 percent full, on average.

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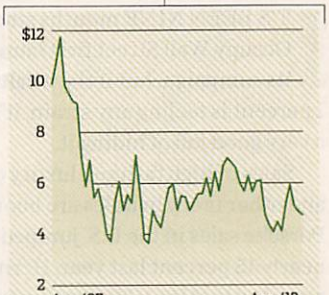


EST. 2012 NET INCOME
$172 mil.

EST. 2012 EPS
$0.52

EST. 2012 P/E
9

MARKET VALUE
$1.3 bil.

Data as of 5/10/12. SOURCE: BLOOMBERG

"The 1 percent are suckers for a fancy, luxury-goods label."

BRETT ARENDS is a contributing editor at SmartMoney. His latest book is *Storm Proof Your Money.*

IT'S BEEN NINE months since Occupy Wall Street first launched its campaign, but if the wealthy 1 percent is feeling any strain, it's doing a very good job of hiding it.

Sales of high fashion, luxury cars and other fancy baubles are booming. Porsche sales in the U.S. jumped nearly 15 percent last year. Hermès reported that its sales were up 26 percent. Imports of Swiss watches rocketed nearly 29 percent in the first three months of 2012. The world's biggest luxury-goods company, LVMH Moët Hennessy Louis Vuitton—which makes products ranging from luggage to champagne—reported a terrific first quarter. These companies have left the overall economy in their wake.

"The sector has never been so strong in terms of sales growth," says Caroline Reyl, a French fund manager who specializes in luxury-goods stocks. For the past two years, she says, the sector's sales have been simply "fantastic"—up 20 percent in 2011, on top of a 16 percent gain in 2010. If you're in the business of selling to the people who've never had it so good, you've never had it so good.

I've always been a big fan of luxury-goods companies as investments. The best, like LVMH and Compagnie Financière Richemont, which owns Cartier, have a license to print money. Their brands have a mystique and fascination that lasts. It is impossible to walk down the thoroughfares of luxury, from Rodeo Drive to the Rue du Faubourg Saint-Honoré, without feeling it. And they are living in a golden age. Since the market hit bottom three years ago, stock in Tiffany and LVMH has tripled, and Saks has more than quadrupled. How's your portfolio doing?

If you're in sympathy with the Occupy crowd, you should take a look at these stocks as a matter of principle. Why occupy Wall Street when you can just sell it something really, really expensive? The 1 percenters are suckers for a fancy label. When I write my book *Personal Finance for Anarchists*—it's on my list—luxury-goods stocks will have a whole chapter.

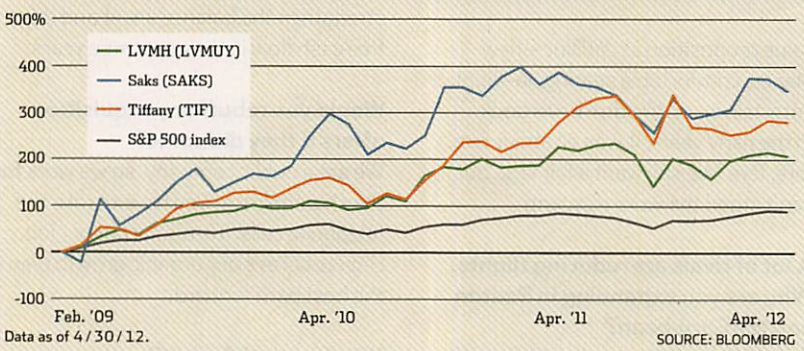
After all, who redistributes money from the wealthy more effectively than a top fashion house or jeweler? And the wealthy line up to pay. They bang on the doors to be let in. Robin Hood never had it so easy.

The good news is that today there are more luxury customers than ever before. There are two reasons for that. The first is the rise of the very wealthy here at home. Income distribution in America is now the most skewed it's been in at least 80 years, by some measures. Make of it what you will, but it seems to be a fact of life.

The second reason? China. Seventy percent of the growth in luxury sales last year came from consumers in emerging markets, says Reyl. And most of that came from Chinese consumers. For the first time in modern history, the Chinese buy more luxury goods than anyone else: They now account

Putting on the Ritz

Fueled by a new wave of buyers, including affluent Chinese consumers, luxury-goods stocks LVMH, Tiffany and Saks have streaked far ahead of the broader market.



Data as of 4/30/12. SOURCE: BLOOMBERG

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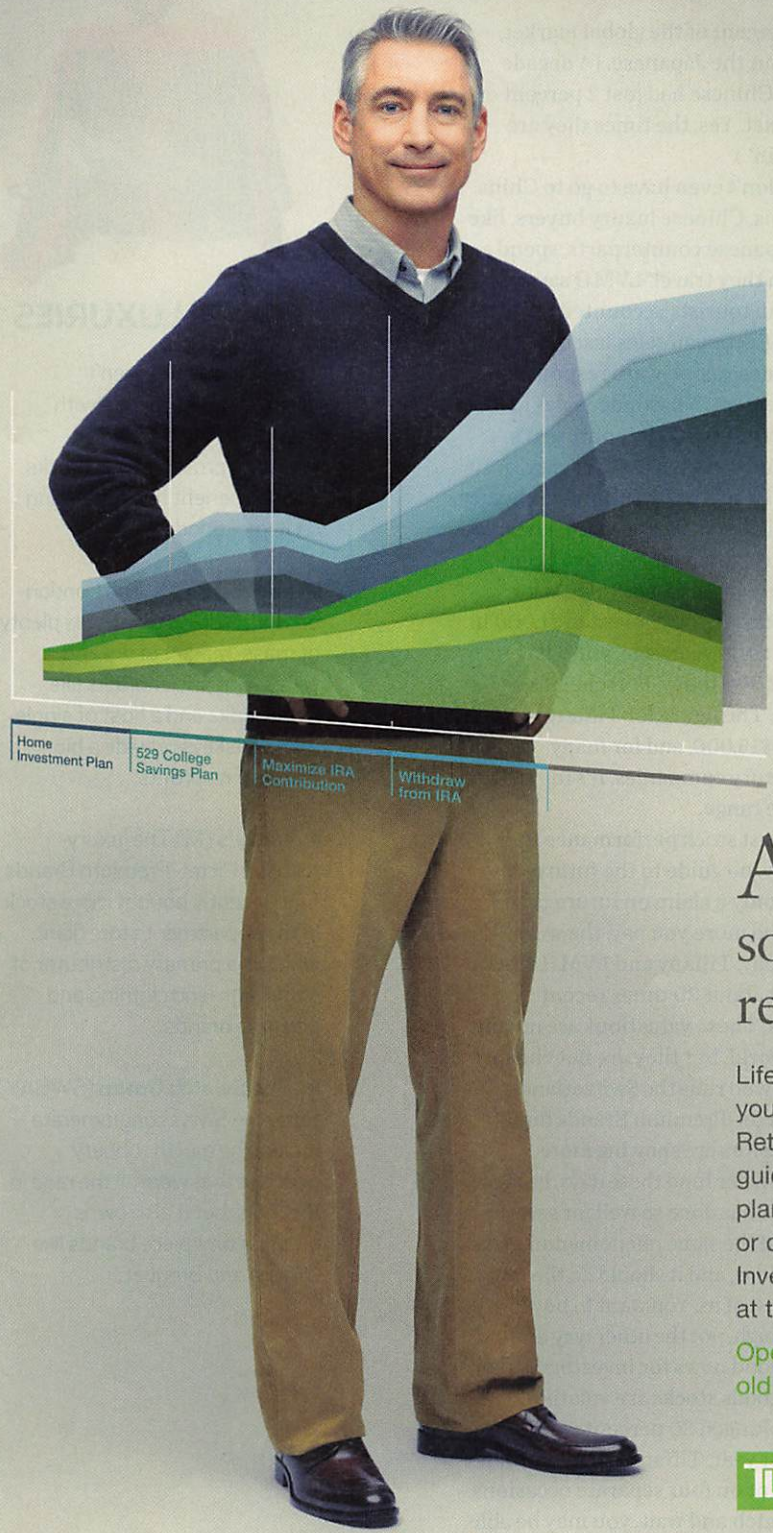

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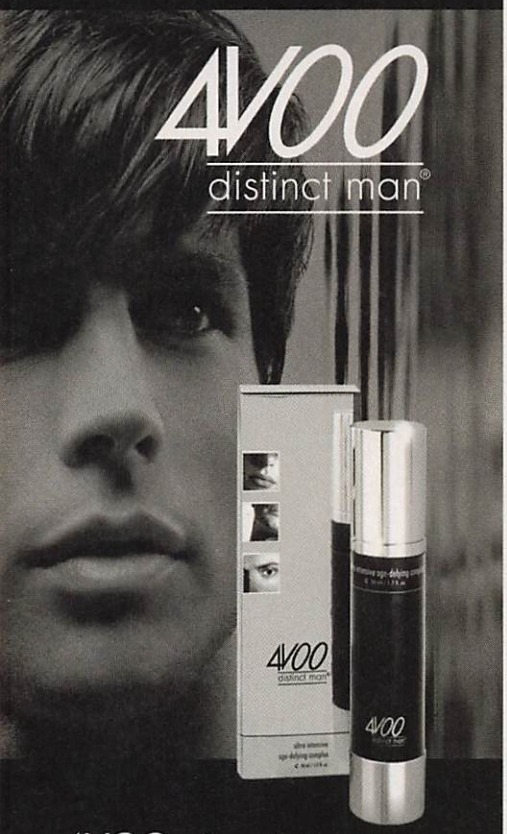

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for 25 percent of the global market, edging out the Japanese. (A decade ago, the Chinese had just 2 percent of the market. Yes, the times they are a-changin'.)

You don't even have to go to China to see this. Chinese luxury buyers, like their Japanese counterparts, spend a lot when they travel. LVMH says non-European tourists accounted for half of all its European sales last quarter. The Chinese alone were responsible for 30 percent. No wonder sales at LVMH are defying the continent's economic crisis. On the contrary, a crisis in Europe may be good for luxury companies. It makes the euro cheaper.

Luxury-goods stocks have been absolutely superb investments for many years. If you'd invested $1,000 in Ford stock 20 years ago, you'd have about $2,300 today. Porsche? Try $28,000. The figure for Tiffany is about $15,000, and for many other luxury companies, it's in the same range.

351% Rise in Saks stock since 2009

But past stock performance is, famously, no guide to the future. A stock is only a claim on future cash flows. The more you pay, the worse the deal. Today, Tiffany and LVMH stock trades at about 20 times recent earnings. These valuations are not out of this world, but they are not cheap.

Reyl, who runs the Switzerland-based Pictet-Premium Brands fund, says investors are showing more interest in her fund these days, because the sector has done so well for several years. But the same phenomenon makes her cautious, and it should do the same for the rest of us. You want to buy low and sell high, not the other way around.

The good news for investors is that luxury-goods stocks are volatile. LVMH plunged 30 percent at one point last year. Tiffany fell more than 20 percent on four separate occasions. If you watch and wait, you may be able to get a deal. Buy on weakness. If you can buy in a panic, even better. The great luxury-goods companies are long-term assets. Good taste, as they say, never goes out of style.

HIDDEN LUXURIES

These companies aren't necessarily associated with the richest of the rich, but investing pros say their stocks can still benefit from spending on luxury goods.

▶ **Diageo** (DEO) The London-based beverage giant sells plenty of mass-market beers and wines. But pricier drinks like Ciroc vodka and a host of single-malt whiskeys provide a big chunk of its profits.

▶ **Macy's** (M) The luxury-focused Pictet-Premium Brands fund recently bought more stock in the department store giant, which is a primary distributor of some high-end clothing and perfume brands.

▶ **The Swatch Group** (SWGAY) Sure, the Swiss conglomerate makes the garish rubbery watches that were all the rage in the '80s, but it also owns prestige timepiece brands like Omega and Breguet.

DOWJONES

INTRODUCING

SmartMoney Financial Glossary

The new online resource for the latest financial terms and phrases.

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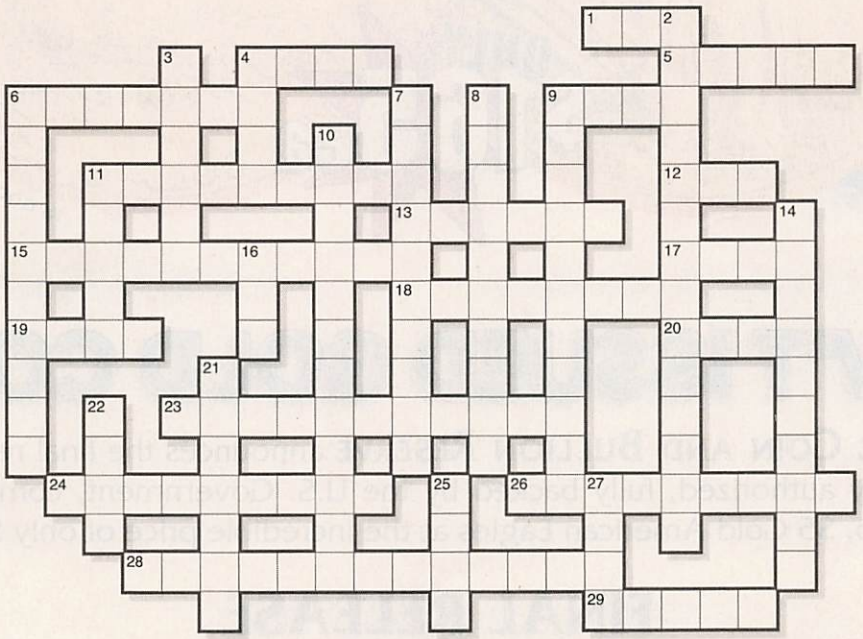

ACROSS

1. Total value of a country's goods and services: Abbr.
4. Type of IRA whose earnings are tax-free
5. Period in which stock prices rise
6. A business lists assets and debts on its ___ sheet
9. Common accounting method: Abbr.
11. Transaction in which one sells borrowed securities expecting prices to fall: 2 wds.
12. World organization that promotes economic cooperation between nations: Abbr.
13. Person who holds a lease
15. Time during which a debt may be paid without further interest or penalty: 2 wds.
17. Advice from a bearish broker
18. Futures market in which longer-term contracts have higher prices than near-term contracts
19. Right to take property until a debt is settled
20. Sales agents, for short
23. Current quoted price of a stock or bond: 2 wds.
24. Person who promises to settle another's debt if that person should default
26. It's levied on an heir who inherits a portion of an estate: 2 wds.
28. Investor in a business who does not participate in management: 2 wds.
29. Person in a transaction who receives money

DOWN

2. Document pledging to pay a sum of money by a specified date: 2 wds.
3. Money received for work or through investments
4. Security that invests in properties and mortgages: Abbr.
6. Short-term arrangement used until a permanent arrangement can be made: 2 wds.
7. Relation between the interest rate and the time to maturity of a debt: 2 wds.
8. Tactic designed to make a hostile takeover prohibitively expensive: 2wds.
9. The capital property of a business, such as buildings and equipment: 2 wds.
10. Corporate expense that rises and falls with production output: 2 wds.
11. Stock unit
14. Extremely rapid drop in the stock market: 2 wds.
16. Mutual fund that is traded on a stock exchange: Abbr.
21. Accounts ___ are moneys owed for goods or services
22. ___ laws prohibit certain business on Sunday
25. Single currency used by France, Germany, Spain and 14 other countries
27. Government program of 2008 created to curb the ongoing financial crisis: Abbr.

For the answers and more financial terms and phrases, visit the Financial Glossary. Powered by wordnik

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PICK

Bonds | 26
How to find good yields in a low-rate world.

Play It Safe | 29
Two ways to play the rebound in travel.

Buy/Sell/Hold | 32
Which bailed-out firms merit a fresh look.

Photograph by James Day for SmartMoney

A Happy Medium

Even though Treasurys are paying next to nothing, investors don't have to go completely into the stock market to search for income. By Reshma Kapadia

THE FEDERAL Reserve might have good economic intentions in keeping interest rates low, but that strategy sure has made it hard to be a saver. Based on the prevailing yields, it will take more than 1,400 years for an investment in a money market fund to double. A long-term Treasury pays a little better; the buyer has to wait only until the middle of the 21st century for that investment to double. Either type of "risk-free" investment, analysts say, will see its purchasing power wiped out by even a minimal increase in inflation.

These pitiful payouts are one reason why dividend-paying stocks have seen an uptick in interest. But folks who fear more drama from the Dow—and there seem to be a lot of them—don't have to jump headfirst into stocks. Some pros are betting that there are still some values in corporate bonds, the debt that firms issue to finance themselves. For the past few years, corporations have been hoarding cash, giving them extra cushion when the time comes to pay down their debts. "As we try to identify things that are reasonably certain in an uncertain financial climate, corporate bonds still offer value," says David Rosenberg, chief economist and strategist at Gluskin Sheff & Associates.

Of course, investors have been betting on bonds for a while now: About $146 billion in new money has flowed into bond funds during the past year, according to Lipper. Much of that money, however, has gone to funds that specialize in government bonds—and strategists such as Erik Davidson, deputy chief investment officer for Wells Fargo Private Bank, say investing in a 10-year Treasury bond is a "surefire way to lose money safely." Davidson says investors need to diversify into other types of debt. Lately, fund managers are finding the best opportunities in bonds of investment-grade companies, bank loans and the high-yield "junk" bonds of companies that are improving their balance sheets.

So far in 2011, bonds have lagged behind stocks. But the goal is to hold these bonds for a few years and pocket each interest payment, managers say. Investment-grade corporate bonds have yields that are well above those of corresponding Treasurys. For five-year BBB-rated corporate bonds, investors are getting, on average, two percentage points of extra yield compared with a corresponding Treasury. Even owning higher-rated Verizon bonds that mature in five to seven years means collecting triple the cash flow of five-year Treasurys, says Dan Genter, head of RNC Genter Capital Management. There's always a chance that firms will run into trouble and not repay their debts, but with companies' cash flow improving, there's less of a risk. Lon Erickson, comanager of the Thornburg Limited Term Income fund, says the improving backdrop means that bonds of firms that might normally pose a higher credit risk now look like an attractive buy. His fund recently bought debt of the automaker Volvo, which pays a nice premium over comparable Treasurys.

Reaching for that extra few points of yield can be a recipe for disaster, of course—it's how some institutions ran into trouble during the financial crisis. Plus, while corporate bonds are less susceptible to interest-rate moves than Treasurys, their prices could get punished if rates rise rapidly. It's why some managers

Illustration by Ryan Etter for SmartMoney

have decided to spread their bets across both corporate bonds and dividend-paying stocks. Other pros have found a compromise in the so-called crossover bond market: high-yielding debt from firms that are improving their balance sheets and might get upgraded by independent credit-rating agencies. "That is the sweet spot," says Rosenberg, since an upgrade could bring in new investors and boost the bond. Additional options include bank loans or—more realistic for individual investors—mutual funds that buy bank loans. While these loans pay less, they carry less risk, and their yields will rise with interest rates.

Smart Picks

Investors seeking steady income can look at corporate bonds and some mutual funds that specialize in that debt, analysts say.

LOOMIS SAYLES BOND FUND (LSBRX)

Kathleen Gaffney, comanager of this mutual fund, looks worldwide for bonds. Recently, she's liked investment-grade debt in select European telecom and utility firms. The fund has beaten 94 percent of its peers over the past decade, according to Morningstar.

FUND ASSETS
$21.4 bil.
FEES PER $10,000
$92
YIELD
5.6%

DODGE & COX INCOME (DODIX)

Almost half of the $25 billion fund is invested in corporate bonds—about double what its benchmark holds. The fund owns about 50 corporate bonds; Bank of America and Citigroup are its two largest holdings. The fund is avoiding Treasurys entirely.

FUND ASSETS
$25.3 bil.
FEES PER $10,000
$43
YIELD
4.0%

TIME WARNER CABLE BONDS (MATURING IN 2012, 2014 AND 2041)

The firm's more than 50 million subscribers generate a steady stream of revenue. Its short-term debt yields nearly three times what a corresponding Treasury pays. Its long-term debt yields more than 5 percent, compared with 3.1 percent on a 30-year Treasury.

AMT. OUTSTANDING
$4.5 bil.
BOND RATINGS
BBB
YIELDS
0.6–5.1%

BB&T BONDS (MATURING IN 2016)

The Southeastern U.S. bank's operating margins have been growing for the past six quarters, and its costs have been falling; BB&T's provisions for bad loans are about half what they were in 2010. The bank has "plenty of liquidity," says Peter Nielsen, research director at Saturna Capital.

AMT. OUTSTANDING
$1.5 bil.
BOND RATINGS
A–
YIELDS
1.5–1.6%

CIT GROUP BONDS (MATURING FROM 2015 TO 2019)

The commercial small-business lender is an example of a "crossover" company that could get upgraded. Chris Dillon, a portfolio specialist for T. Rowe Price, says CIT chief executive John Thain has done an "amazing job" of restructuring the firm since it filed for Chapter 11 in 2009—cutting costs and paying off more than $8 billion in debt. CIT bonds that mature in 2019 pay almost three times what 10-year Treasurys do now.

AMT. OUTSTANDING
$11.4 bil.
BOND RATINGS
BB–
YIELDS
3.8–5.3%

SOURCES: BLOOMBERG; STANDARD & POOR'S

The Price Is Wrong

The values of many ETFs and the investments they hold don't match up. By Ian Salisbury

IT'S THE PROMISE that has helped propel the exchange-traded fund business into a $1 trillion industry: that an ETF's price will accurately reflect the values of all the stocks, bonds, commodities or anything else stuffed into it. But it seems that ETF manufacturers are having a really difficult time living up to that ideal.

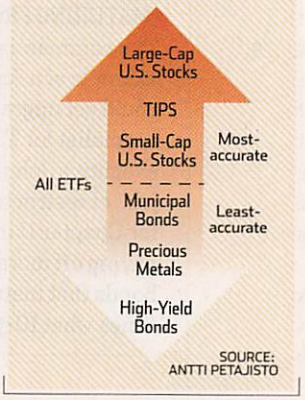
Indeed, according to a new study by New York University, ETFs often trade at up to a 1 percent premium (or discount) to the investments they hold. That 1 percent might not sound like a lot, but it's higher than the average 0.6 percent annual expense ratio for ETFs. When it's a premium, "the unsophisticated investor may face an unexpected additional cost when trading ETFs," says Antti Petajisto, the study's author.

The mispricing boils down to three things: the type of assets held in the ETF, how often those assets trade and the types of price swings those assets endure. Foreign stock ETFs have a rough time staying close to the prices of illiquid foreign stocks. But ETFs tracking U.S. municipal bonds are also offenders. The iShares S&P National AMT-Free Municipal Bond fund (MUB) recently traded at a 4 percent premium over the bonds it held; the ETF was yielding only 3 percent.

Petajisto says a savvy investor could bet that an ETF's price will eventually match the underlying investments, but profiting from such moves would require a lot of capital and rapid-fire trading abilities many individual investors don't have. For most investors, Petajisto says, the best strategy is to not buy or sell the ETF on a day when its underlying assets have big price swings.

For their part, ETF firms say the findings don't clash with the industry's promise. "ETFs are the best go-to vehicle, even when they have to trade during periods of stress," says Daniel Morillo, head of investment research at iShares. But iShares, which is owned by BlackRock, doesn't dispute the findings either. In fact, the firm hired Petajisto shortly after he finished working on the study.

What an ETF owns is a big factor in how closely its trading price matches its intrinsic value.



TERM OF THE MONTH
STRUCTURAL VS. CYCLICAL

It's the topic economists and politicians are pondering: Will the jobs lost in the Great Recession come back soon, or are there longer-term issues that will keep the unemployment rate high? The first scenario implies that the job market is mostly cyclical; firms will hire when demand for their wares returns. That's what Federal Reserve boss Ben Bernanke says. Others, however, say the nation has a structural employment problem; the jobs are there, but the U.S. doesn't have the skilled workers to fill them.

Illustration by Matt Collins for SmartMoney

Travel Advisory

Spending on flights, hotel rooms and more is way up. Two investment options: Go with the crowd or venture where few have gone before. By Tania Karas

PLAY IT SAFE

Hotel Stocks

RISK LEVEL 25

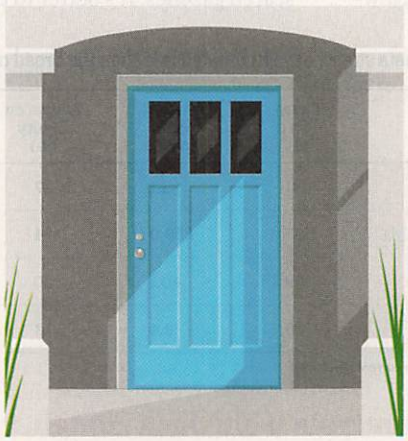
After staying home during the recession, people are back on the move. Hotel bookings have rebounded, and some experts say they're exceeding prerecession peaks. But the safest way to play the uptick in travel, analysts say, just might be to invest in hotels that are catering to people traveling through Asia. An emerging middle class in China and other nations in the region means hoteliers are building and seeing increased demand, says Esther Kwon, a hotels analyst for S&P Capital IQ. For instance, there are nearly 1,400 new hotel projects under way in China this year, according to research firm Lodging Econometrics. Those with the best growth prospects in Asia, money pros say, include Starwood Hotels & Resorts Worldwide (HOT), InterContinental Hotels (IHG) and Marriott International (MAR). It's not just pure-play hotels that are booming: Las Vegas Sands (LVS) opened a $4.4 billion hotel–casino complex in Macau this spring.

GO FOR BROKE

Time-Share Firms

RISK LEVEL 80

For truly intrepid investors, there is an area of the travel industry that is still lagging behind: time-shares. Financing for new developments all but dried up during the financial crisis in 2008, and so did the ability of many consumers to spend top dollar to buy into time-shares. Sales of new U.S. time-shares were $6.5 billion in 2011, well below their peak of $10.6 billion in 2007, according to the American Resort Development Association. Nevertheless, some pros have been betting on a rebound, buying stock of time-share-management firms, including Interval Leisure (IILG) and Marriott Vacations Worldwide (VAC), the leisure-centric company spun off from the Marriott hotel chain. Marriott Vacations posted a $178 million loss in 2011, but the company expects to be back in the black in 2012. It appears the company's boss thinks the firm is undervalued: CEO Stephen Weisz bought nearly $400,000 in stock over the winter.



TOLD YOU SO...

Thyra Zerhusen, featured in "World's Greatest Investors," (August 2011) said Internet content-delivery firm Akamai Technologies (AKAM) was a good value. Since then, the stock has gone up 32 percent. Its business has grown with the rollout of new Web-security products. The tech firm also acquired its rival Cotendo earlier this year.

...OOPS

In July 2011's "Investing Reinvented," we said Brazilian oil firm Petrobras (PBR) looked intriguing, thanks to new oil discoveries. But it has struggled to keep up with domestic oil demand; its stock is down 35 percent. A spokesperson says Petrobras's investments will expand capacity and production.

Illustrations by Scott Roberts for SmartMoney

"If risk predicts returns, we haven't come up with a way to accurately measure risk."

For another stock pick, go to SmartMoney.com.

JACK HOUGH, a former Wall Street adviser, is the author of *Your Next Great Stock.*

IF APPLES suddenly started to float, physicists would want to revisit Isaac Newton's teachings. But stock market observers have documented their equivalent of flying fruit for at least four decades and aren't sure what to make of it.

A stock's return is supposed to be directly related to its risk, according to the Newtons of finance, including Nobel laureates Harry Markowitz and William Sharpe. Investors can find stocks with the potential for higher-than-average returns or greater-than-average safety, but not both, the thinking goes. They might as well own a basket of all stocks; hence, the popularity of index mutual funds. (Stock pickers like Warren Buffett disagree, of course.)

But a study published last year in *Financial Analysts Journal* showed something the theories don't predict: Over the 41 years ended in 2008, low-risk stocks outperformed high-risk ones. One interpretation of the findings is that, if risk truly predicts returns, we haven't yet come up with a way to accurately measure risk. The study used one of the most common measures, past trading volatility. Another possibility—this one may require a long meditation over a stiff drink—is that we struggle to measure risk as separate from returns because they are secretly the same thing. Both seem made from the same ingredients; a stock's valuation helps predict its return and its riskiness.

The simplest takeaway, however, is that investors shouldn't rely too heavily on mathematical risk models when it comes to keeping their money safe. The high-finance way to reduce the risk of a portfolio is to select investments with low "correlations" to each other—in other words, while some have a history of zigging, others have zagged. But the recent financial crisis suggests that during times of stress, stocks forget their correlations and run together like scared gazelles. It's better to think about managing the risk of a portfolio by selecting companies that make money in different ways and places.

Similarly, there seems little point in shying away from "low-beta" stocks, or ones with mild past price swings, for fear that they will produce dull returns. The study suggests otherwise—that investors can seek safety *and* returns. Perhaps investors go out of their way to buy sexy high-beta stocks, bidding up their prices and making the low-beta ones a better deal by comparison.

Index funds are fine investments, by the way—especially for investors seeking cheap, broad exposure to stocks. For investors who pick their own stocks, below are some with betas below 1.0; this means they have been less volatile than the broad stock market over the past five years. Beta alone doesn't show whether a stock is safe, of course. These firms also earn healthy returns, seem modestly priced relative to their earnings and have a record of increasing their dividend payments.

The Beta Club These low-beta stocks have fluctuated less than the broad market in the past five years; this suggests they are safer bets.

Company (Ticker)	Share Price ($)	Market Value ($ bil.)	Return on Equity (%)	Price/ Earnings*	Dividend Growth, 10 Years (%)	Price Change, 52 Weeks (%)	Beta
Bank of the Ozarks (OZRK)	31	1.1	27	15	20	31	0.84
International Business Machines (IBM)	207	239.0	74	14	18	21	0.65
Medtronic (MDT)	39	40.1	20	11	16	–9	0.84
Wisconsin Energy (WEC)	36	8.4	13	14	10	14	0.34

Data as of 5/3/12. *Based on forecast earnings for current fiscal year.

SOURCE: THOMSON REUTERS

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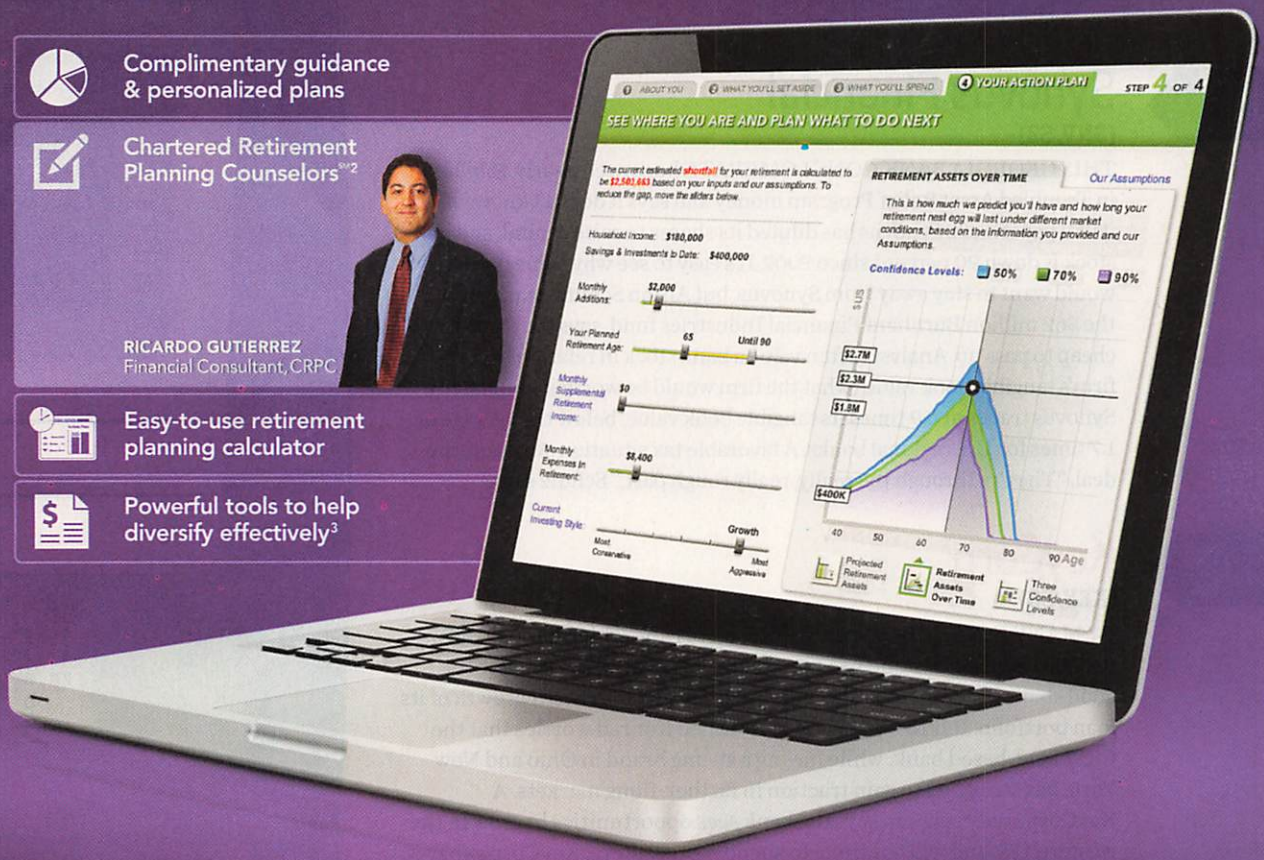

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Second Chances

Under the Troubled Asset Relief Program, Uncle Sam lent $415 billion to about 750 firms. Which ones look like good buys now? By Ian Salisbury

BUY

Synovus Financial

(SNV, $2)

THIS GEORGIA BANK CONGLOMERATE borrowed nearly $1 billion in Troubled Asset Relief Program money and says it doesn't know when it will pay it back. Synovus has diluted its shares to raise capital, and its stock is down 90 percent since 2007. It's easy to see why some investors would want to stay away from Synovus, but Anton Schutz, manager of the $62 million Burnham Financial Industries fund, says the stock is too cheap to pass up. Analysts often value a bank stock in relation to the firm's tangible book value (what the firm would be worth if liquidated). Synovus trades at 0.9 times its tangible book value, below the average of 1.7 times for U.S. regional banks. A favorable tax situation sweetens the deal. "They're through the really, really rough part," Schutz says.

SELL

KeyCorp

(KEY, $8)

BY MANY FINANCIAL MEASURES, KeyCorp—which has paid off all its TARP obligations and has posted profits since 2010—is in pretty good shape. KeyCorp has also been highlighting the recent growth of its loan portfolio. But KBW bank analyst David Konrad worries that the Cleveland-based bank, while having a strong brand in Ohio and New York, has struggled to gain traction in farther-flung markets. A KeyCorp spokesperson says the bank sees opportunities to grow in the western U.S. and will continue to spend money there. KeyCorp's shares, which have risen 38 percent since last fall, are now valued about 11 percent higher than those of other regional banks, Konrad estimates.

HOLD

General Motors

(GM, $22)

GENERAL MOTORS' NEW SHARES are down nearly 33 percent since they debuted in late 2010 and are valued at about five times this year's estimated profits. The firm's European arm is losing money, and its pension liabilities are underfunded by $12.9 billion. Still, David Segal, comanager of the $14.1 billion Mutual Shares fund, says investors should look beneath the surface. GM doesn't face mandatory pension contributions until 2017, and if interest rates rise, the shortfall could shrink dramatically. The company has plowed more cash into its car development, which bodes well for future sales, Segal says. He hopes the firm will issue a dividend next year (a GM spokesperson says the balance sheet and product line are the highest priorities).

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IMPORTANT SAFETY INFORMATION

XIAFLEX can cause serious side effects including tendon rupture (break), ligament damage, nerve injury or other serious injury of the hand, or allergic reaction.

Call your doctor right away if you have trouble bending your injected finger after the swelling goes down, pain, tingling, numbness, or problems using your treated hand or if you get hives, swollen face, breathing trouble, or chest pain.

It's important to tell your doctor about a prior allergic reaction to XIAFLEX, or if you have a bleeding problem or use a blood thinner.

Common side effects include hand swelling, bruising, injection site reaction or bleeding, and pain.

You are encouraged to report negative side effects of prescription drugs to the FDA. Visit www.FDA.gov/medwatch or call 1-800-FDA-1088.

Please see Important Product Information on the following page.

For more information, call **1-877-XIAFLEX** or visit **XIAFLEX.com**

XIAFLEX®
collagenase clostridium histolyticum
Within reach

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Important Product Information

XIAFLEX® (Zi a flex)
(collagenase clostridium histolyticum)

What is the most important information I should know about XIAFLEX?

XIAFLEX can cause serious side effects, including:

1. **Tendon rupture or ligament damage.** Receiving an injection of XIAFLEX may cause damage to a tendon or ligament in your hand and cause it to break or weaken. This could require surgery to fix the damaged tendon or ligament. Call your healthcare provider right away if you have trouble bending your injected finger (towards the wrist) after the swelling goes down or you have problems using your treated hand after your follow-up visit.
2. **Nerve injury or other serious injury of the hand. Call your healthcare provider right away** if you get numbness, tingling, or increased pain in your treated finger or hand after your injection or after your follow-up visit.
3. **Allergic Reactions.** Allergic reactions can happen in people who take XIAFLEX because it contains foreign proteins.

Call your healthcare provider right away if you have any of these symptoms of an allergic reaction after an injection of XIAFLEX:

- hives
- swollen face
- breathing trouble
- chest pain

What is XIAFLEX?

XIAFLEX is a prescription medicine used to treat adults with Dupuytren's contracture when a "cord" can be felt.

In people with Dupuytren's contracture, there is thickening of the skin and tissue in the palm of your hand that is not normal. Over time, this thickened tissue can form a cord in your palm. This causes one or more of your fingers to bend toward the palm, so you can not straighten them.

XIAFLEX should be injected into a cord by a healthcare provider who is skilled in injection procedures of the hand and treating people with Dupuytren's contracture. The proteins in XIAFLEX help to "break" the cord of tissue that is causing the finger to be bent.

It is not known if XIAFLEX is safe and effective in children under the age of 18.

What should I tell my healthcare provider before starting treatment with XIAFLEX?

XIAFLEX may not be right for you. Before receiving XIAFLEX, tell your healthcare provider if you:

- have had an allergic reaction to a previous XIAFLEX injection.
- have a bleeding problem.
- have any other medical conditions.
- are pregnant or plan to become pregnant. It is not known if XIAFLEX will harm your unborn baby.
- are breastfeeding. It is not known if XIAFLEX passes into your breast-milk. Talk to your healthcare provider about the best way to feed your baby if you receive XIAFLEX.

Tell your healthcare provider about all the medicines you take, including prescription and non-prescription medicines, vitamins, and herbal supplements.

Especially tell your healthcare provider if you use:

a blood thinner medicine such as aspirin, clopidogrel (PLAVIX®), prasugrel hydrochloride (EFFIENT®), or warfarin sodium (COUMADIN®). If you are told to stop taking a blood thinner before your XIAFLEX injection, your healthcare provider should tell you when to restart the blood thinner.

How will I receive XIAFLEX?

Your healthcare provider will inject XIAFLEX into the cord that is causing your finger to bend.

After an injection of XIAFLEX, your affected hand will be wrapped with a bandage. You should limit moving and using the treated finger after the injection.

Do not bend or straighten the fingers of the injected hand until your healthcare provider says it is okay. This will help prevent the medicine from leaking out of the cord.

Do not try to straighten the treated finger yourself.

Keep the injected hand elevated until bedtime.

Call your healthcare provider right away if you have:

- signs of infection after your injection, such as fever, chills, increased redness, or swelling
- numbness or tingling in the treated finger
- trouble bending the injected finger after the swelling goes down

Return to your healthcare provider's office as directed on the day after your injection. During this first follow-up visit, if you still have the cord, your healthcare provider may try to extend the treated finger to "break" the cord and try to straighten your finger.

Your healthcare provider will provide you with a splint to wear on the treated finger. Wear the splint as instructed by your healthcare provider at bedtime to keep your finger straight.

Do finger exercises each day, as instructed by your healthcare provider.

Follow your healthcare provider's instructions about when you can start doing your normal activities with the injected hand.

What are the possible side effects of XIAFLEX?

XIAFLEX can cause serious side effects. See "What is the most important information I should know about XIAFLEX?".

Common side effects with XIAFLEX include:

- swelling of the injection site or the hand
- bleeding or bruising at the injection site
- pain or tenderness of the injection site or the hand
- swelling of the lymph nodes (glands) in the elbow or underarm
- itching
- breaks in the skin
- redness or warmth of the skin
- pain in the underarm

These are not all of the possible side effects with XIAFLEX. Tell your healthcare provider about any side effect that bothers you or does not go away.

Call your doctor for medical advice about side effects. You may report side effects to the FDA at 1-800-FDA-1088.

General information about XIAFLEX

Medicines are sometimes prescribed for purposes other than those listed here. This is a summary of the most important information about XIAFLEX. If you would like more information, talk to your healthcare provider. You can ask your healthcare provider for information about XIAFLEX that is written for health professionals.

For more information visit www.XIAFLEX.com or call 1-877-663-0412.

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PLAN

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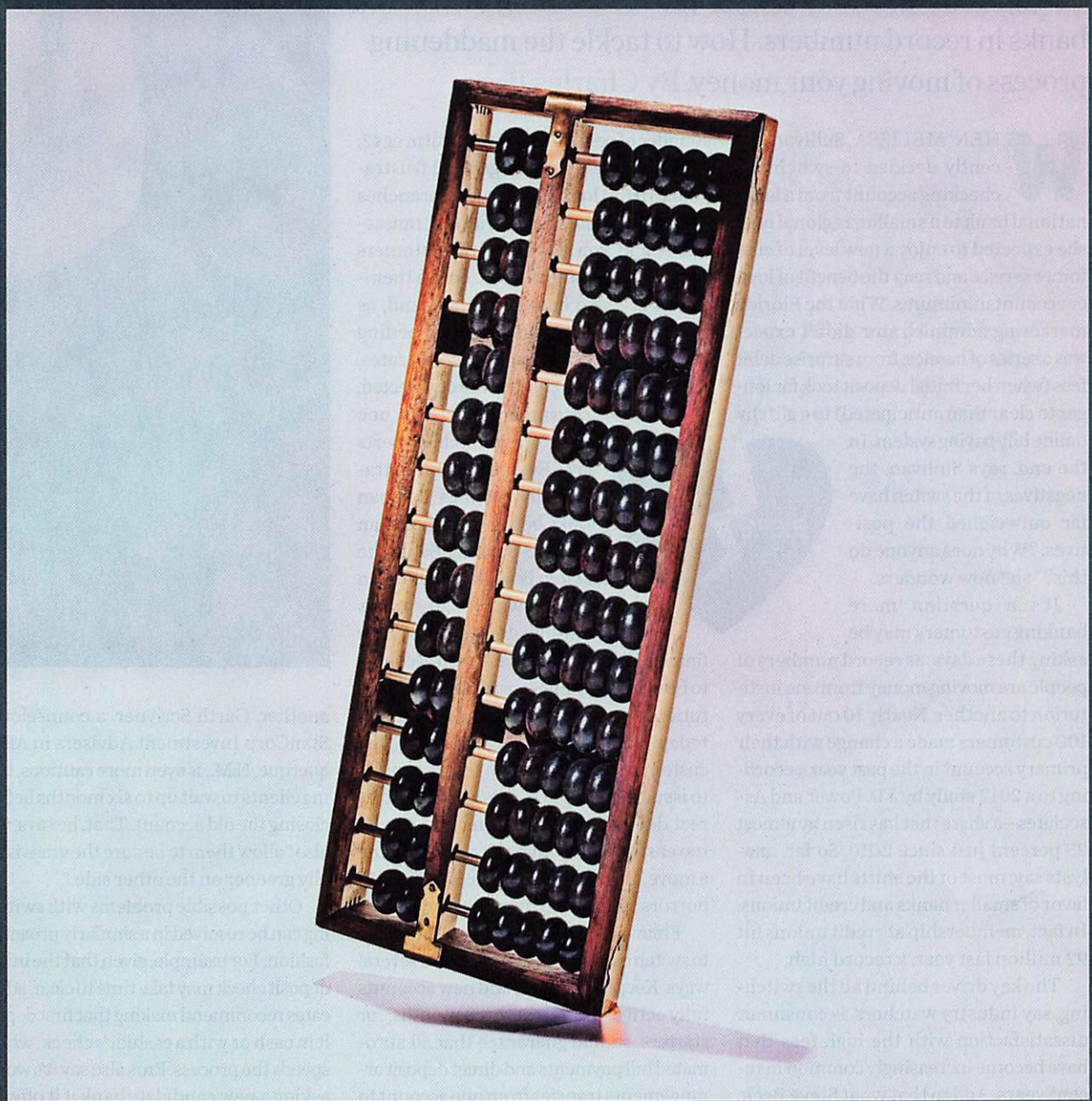
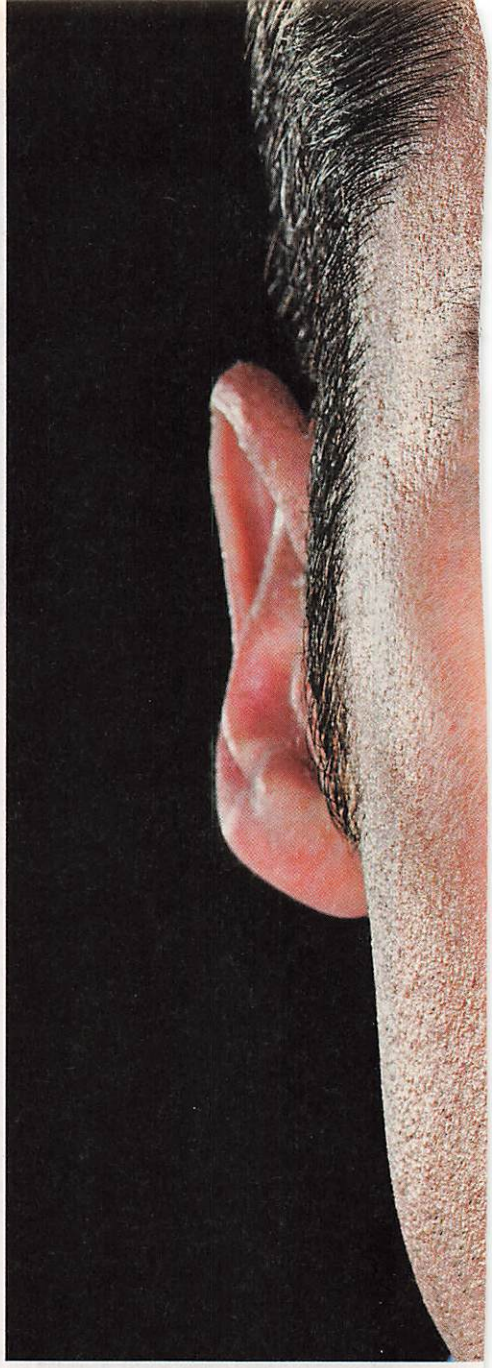


Photograph by James Day for SmartMoney

Breaking Up With Your Bank

Fed up with "gotcha" fees, people are ditching their banks in record numbers. How to tackle the maddening process of moving your money. By Charles Passy



WHEN MELISSA Sullivan recently decided to switch her checking account from a large national bank to a smaller, regional one, she expected to enjoy a new level of customer service and reap the benefit of lower account minimums. What the Florida marketing administrator didn't expect was a series of hassles, from surprise debit fees (when her initial deposit took far longer to clear than anticipated) to a glitchy online bill-paying system. In the end, says Sullivan, the negatives of the switch have far outweighed the positives. "Why does anyone do this?" she now wonders.

It's a question more banking customers may be asking these days, as record numbers of people are moving money from one institution to another. Nearly 10 out of every 100 customers made a change with their primary account in the past year, according to a 2012 study by J.D. Power and Associates—a share that has risen by almost 25 percent just since 2010. So far, analysts say, most of the shifts have been in favor of smaller banks and credit unions. In fact, membership at credit unions hit 92 million last year, a record high.

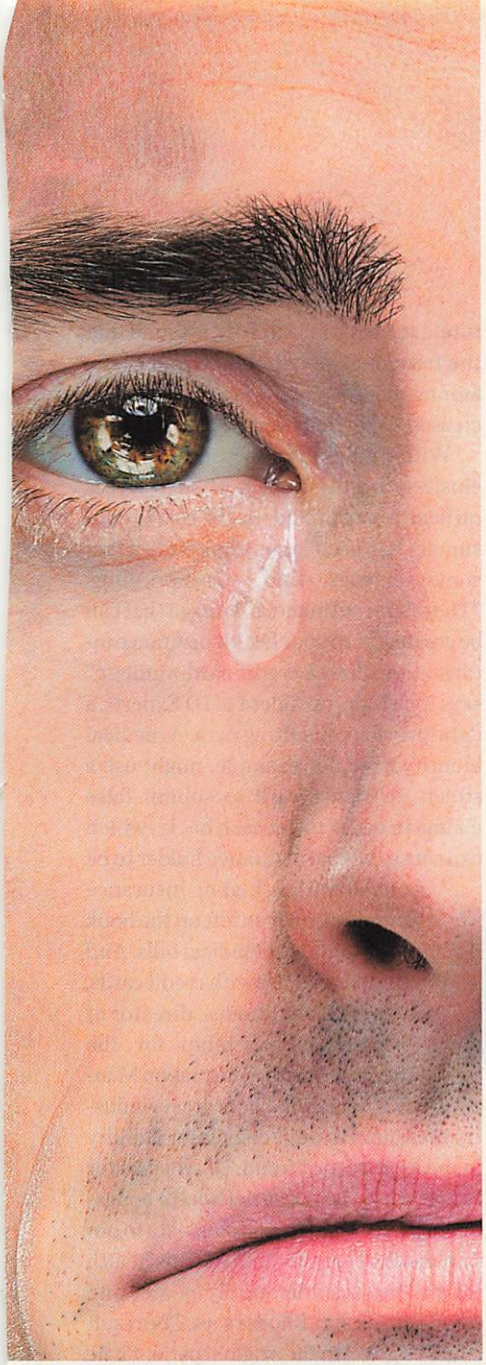
The key driver behind all the switching, say industry watchers, is consumer dissatisfaction with the high fees that have become increasingly common in recent years. Add to that what Steve Beck, founder of consumer-research firm cg42, calls "a broad range of general frustrations," from long wait times at branches to rigid processes for a variety of transactions, and you end up with customers looking for an alternative. Banks themselves are also hastening the trend, as they roll out generous account-opening promotions—high starter interest rates, cash rewards—to capture the disaffected.

Still, for consumers, there is one mighty big catch, experts say. Even if New Extra-Friendly Savings & Loan looks better on paper than Old Fee-Sucking Bank, the switch is never simple in an age in which consumers consolidate so much of their financial lives—from investment accounts to home-equity lines—with a single institution. Further complicating matters: In today's autopilot-driven financial world, customers typically set up their accounts to issue regular payments and accept direct deposits—transactions that can all too easily fall through the cracks during a move, leading to penalties, late fees and horrors like missed mortgage payments.

Financial pros, though, say savers eager to switch can protect themselves in several ways. Keeping both old and new accounts fully active for at least three months, for starters, should guarantee that all automated bill payments and direct deposit arrangements transfer from one account to another. Garth Scrivner, a counselor at StanCorp Investment Advisers in Albuquerque, N.M., is even more cautious, telling clients to wait up to six months before closing the old account. That, he says, will also "allow them to be sure the grass is really greener on the other side."

Other possible problems with switching can be resolved in a similarly proactive fashion: For example, given that the initial deposit check may take time to clear, advocates recommend making that first deposit in cash or with a cashier's check, which speeds the process. Pros also say it's worth asking a new candidate bank if it offers a

Photograph by Evan Kafka for SmartMoney



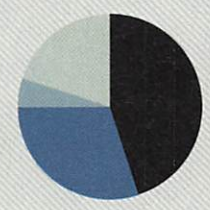
"switch kit." Such packets include checklists of the financial data you'll need to gather and, often, form letters to authorize any necessary third-party transfers.

Of course, before taking the leap to another bank, advocates suggest there's one oft-overlooked thing customers can do: See if your current bank can offer better rate terms or waive those cringe-inducing penalties. As experts point out, given the huge number willing to jump ship these days, customers now wield more power than they might realize. Says Beck, "The takeaway is not to look at this as a one-sided negotiation."

Perfect Portfolio

32-year-old professional planning to return to grad school

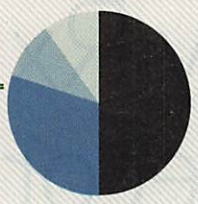
The first assignment: Protect school funds from market volatility so as to avoid having to sell investments when tuition bills come due. Experts say short-term bonds maturing in one to three years, or mutual funds or ETFs that invest in such bonds, can offer stability. For stocks, look to large U.S. multinational firms; "China and Europe are both looking a little shaky," says Sidney Blum, a planner at GreatLight Fee Only Advisors in Evanston, Ill.



- 45% Stocks
- 30% Bonds
- 5% Alternatives
- 20% Cash

50-year-old couple with two kids in college

Investors facing double tuition bills might want to keep more money in bonds and cash than they would if retirement was their only reason for saving. Lee Rosenberg, president of ARS Financial Services in Jericho, N.Y., recommends savers, especially those in high tax brackets, put a big chunk in tax-free municipal bonds. He also suggests owning large, dividend-paying stocks, as well as real estate investment trusts, or REITs.



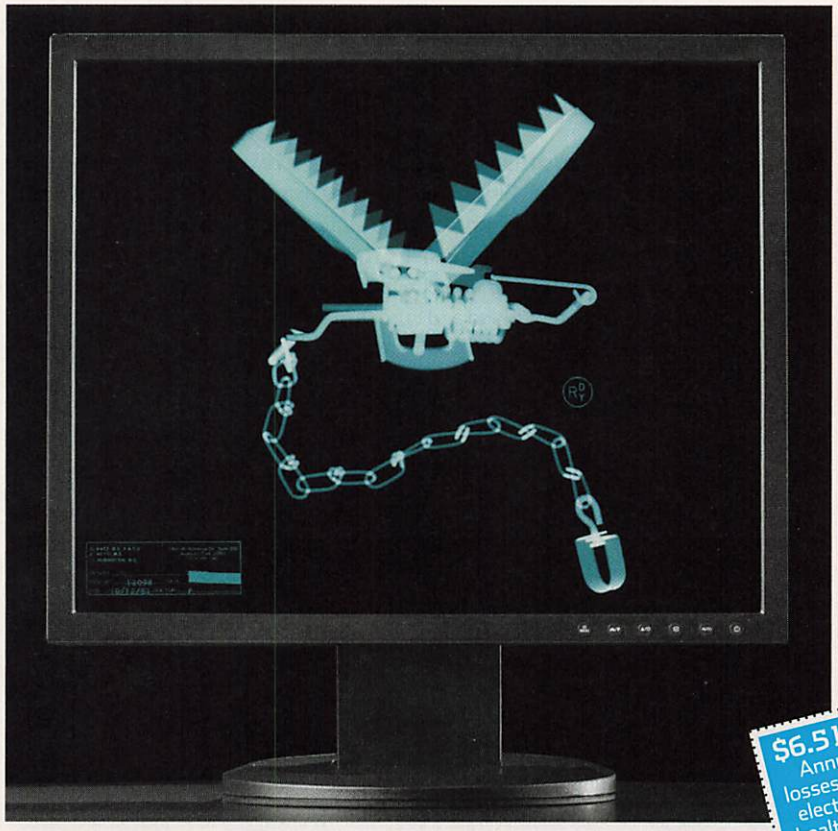
- 50% Stocks
- 30% Bonds
- 10% Alternatives
- 10% Cash

70-year-old multimillionaires with lots of potential heirs

You may have enough money to own investment properties, but Rosenberg says REITs are better because shares can be sold quickly to meet financial needs. For those in the top tax bracket, tax-free muni bonds or Treasury inflation-protected securities make sense. Adds Blum: "Inflation is going to return, and it's not going to give you a lot of warning."

- 45% Stocks
- 40% Bonds
- 10% Alternatives
- 5% Cash

Note that these allocations may shift as market conditions change. To see updates on our portfolios, including recommended asset mixes for other stages of life, go to smartmoney.com/perfectportfolio.



$6.5 bil. Annual losses from electronic health data breaches

A Risky Rx for Your Records

Lured by huge incentives, doctors are rushing to digitize your medical files. The move, though, might have some nasty side effects for patients. By Tania Karas

FEW HEALTH CARE trends have gotten as much press of late as the mad rush into electronic health records. Physicians, driven by the promise of better care, cost savings and nearly $23 billion in new federal incentive payments, are racing to turn their scribbled medical records into digital files. Thirty-five percent of hospitals now use such systems, more than double the share two years ago, according to U.S. government figures. But for all the hype about electronic records, little attention has been paid to what some say is a serious weak spot: When those sensitive bits and bytes fall into the wrong hands, it's often patients who feel the pain.

Since 2009, there have been more than 420 security breaches involving the records of some 19 million patients, according to the U.S. Department of Health and Human Services' Office for Civil Rights. And such breaches are on the rise. A December 2011 report by the Ponemon Institute, a security-research firm, found that the frequency of data losses and thefts among health care organizations increased 32 percent over the previous year.

With studies so far focused nearly exclusively on the impact of such losses on health care providers, the cost to consumers has been largely ignored—a fact some experts find mind-boggling. "There's more financial damage that can be created from your health insurance information than a credit card number," says Rick Kam, president of ID Experts, a data-privacy consulting firm. A medical identity thief, for example, might use a stolen insurance card to submit false claims in order to get cash back—which can cause the real insurance holder to be saddled with a higher insurance premium, or even left on the hook for fraudulent medical bills. And unlike the case with credit cards, says Harry Rhodes, director of practice leadership for the American Health Information Management Association, there are no industry measures to limit consumer liability in medical-record fraud. Of still greater concern are the potential health consequences: If a thief uses stolen data to obtain medical care for himself, his health information is automatically merged into the electronic file, Rhodes says. The result could be grave to the original patient if he or she has a serious medication allergy or if a new medical diagnosis suddenly changes a care regimen.

Given the stakes, experts like Deven McGraw, director of the Health Privacy Project at the Center for Democracy & Technology in Washington, D.C., advise consumers to guard their health insurance cards the way they would their credit cards and to carefully review their statements of insurance benefits. Beyond that, pros say, patients should ask their doctors how sensitive data is being protected. After all, says Larry Ponemon, chairman of the Ponemon Institute, "Patients' lives depend on it."

STYLED BY KELLIE MURPHY

Photo-illustration by David Arky for SmartMoney

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*Based on cumulative total return, 12 of 12 (100%), 11 of 12 (92%), 12 of 12, and 12 of 12 of the Retirement Funds for individual investors outperformed their Lipper average for the 1-, 3-, and 5-year and since-inception periods ended 3/31/12, respectively. The Retirement 2010, 2020, 2030, 2040, and Income Funds began operations on 9/30/02; the 2005, 2015, 2025, and 2035 Funds began operations on 2/29/04; the 2045 Fund began operations on 5/31/05; and the 2050 and 2055 Funds began operations on 12/31/06. (Source for data: Lipper Inc.)

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"The transition to an encore career can be costly and time-consuming."

16.7 bil. Hours worked annually by people in encore careers

GLENN RUFFENACH is editor of *The Wall Street Journal's* Next section, a guide to retirement planning and living.

BILL GATES HAS one. So does Al Gore. Each man has embraced an encore career—work in later life that's personally fulfilling, contributes to the greater good and generates income. (Although I assume the last isn't top of mind for Gates.) If you're considering a similar path, new research and developments point to reason for concern—and optimism.

The notion of encore careers (the term was made popular by Marc Freedman, head of Civic Ventures, a San Francisco think tank) has been percolating now for some time. But several factors today are prompting more people to pursue such jobs: undersize nest eggs, increased longevity, a desire to tackle society's ills and, in many cases, an urge to find a different kind of life.

Mark Noonan, 59, lives in Portland, Ore. Eight years ago, he lost his wife in an accident. In his grief, he began reflecting on what he wanted to do going forward. For 30 years, he had worked as an engineer for a series of high-tech companies, jobs that were "financially, but not personally, rewarding," he told me recently. Today, Noonan is a manager at Elders in Action, a Portland nonprofit that helps older adults secure health care and housing, among other needs. "Every single day, I feel like I have a positive impact on a person's life," he says. His journey, though, was decidedly bumpy. Almost two years passed before he landed full-time work—a period filled with doubts ("Will I be able to make a living wage?") and uncomfortable lessons ("With most nonprofits, the culture is very different from for-profits"). On the plus side: Community college classes and some internships steered him to his current position.

Those experiences reflect the bad news—and the good news—on the front lines. First, new research from Civic Ventures shows that the transition from midlife work to an encore career can be costly and time-consuming. Of the estimated 9 million Americans already in encore careers, two-thirds had gaps in personal income during the transition. (Almost one in four reported earning no money.) Job searches, on average, lasted 18 months; some 34 percent said the process took more than two years. Some searches drag on because of the shaky economy, says Jim Emerman, executive vice president at Civic Ventures. Even so, "it's distressing," he adds, "to think it could take that long to find your footing."

But growing interest in encore careers, and a growing recognition of the importance of such jobs, means more resources are becoming available to help people make the leap. Consider these:

Schools: Some of the top universities in the country are now guiding older students into the nonprofit arena. At Harvard, the Advanced Leadership Initiative invites late-career professionals to spend nearly a year on campus and then asks them to develop a "social-purpose project" to address problems at the local, national or global level. Community colleges, too, are stepping up. Since 2008, the Plus 50 Initiative, a program launched by the American Association of Community Colleges, has been helping older adults find employment. Now, new grant money may help provide as many as 10,000 students in 100 community colleges with job training, degrees and certificates in health care, education and social service fields—areas that are

ILLUSTRATIONS BY BRIAN STAUFFER; COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

For more ideas on preparing for a healthy retirement, go to SmartMoney.com.

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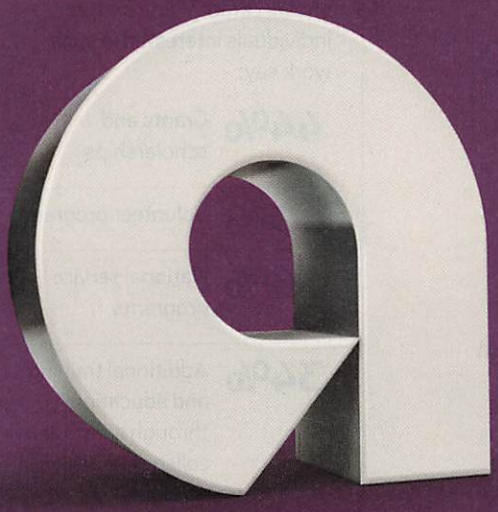

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often good fits for encore careers.

Fellowships: Paid internships are normally associated with young adults. The Encore Fellowships Network, started by Civic Ventures in 2009 and now expanding nationwide, applies the same idea to baby boomers. With funding from private foundations and employers, participants are matched with a nonprofit, where they work six to 12 months and receive stipends of $20,000 to $35,000. The hands-on experience, says Emerman, helps ease concerns among would-be employers "that you don't have anything on your résumé in the nonprofit sector."

Entrepreneurs: Yes, you can try to get your foot in the door of an existing nonprofit or business venture that meets a community need—or perhaps you can start your own. The Ewing Marion Kauffman Foundation's annual survey of entrepreneurial activity in the U.S. points to a rising share of new entrepreneurs among people ages 55 to 64. In 1996, this demographic represented 14.3 percent of new entrepreneurs; in 2011, the figure climbed to 20.9 percent, marking the largest jump in any of the age groups measured.

None of this is to say that pursuing an encore career isn't—pick a word—difficult, intimidating, exhausting. In fact, it's all those things at one point or another, says Paul Rigel, 57, who lives outside Lake Wales, Fla. And then comes the payoff. A former minister, Rigel returned to college at age 54 to get his teaching certificate and build a new life. Now, he spends his days instructing middle schoolers on the finer points of agriculture and environmental science, among other electives. A recent high point: planting vegetable gardens and watching a young, cabbage-averse student eat (and actually enjoy) a helping of broccoli and brussels sprouts. "Am I ever scared? Yes. Sometimes every day," Rigel told me. But working with children and having an influence in their lives has been more than worth it: "This is a great adventure."

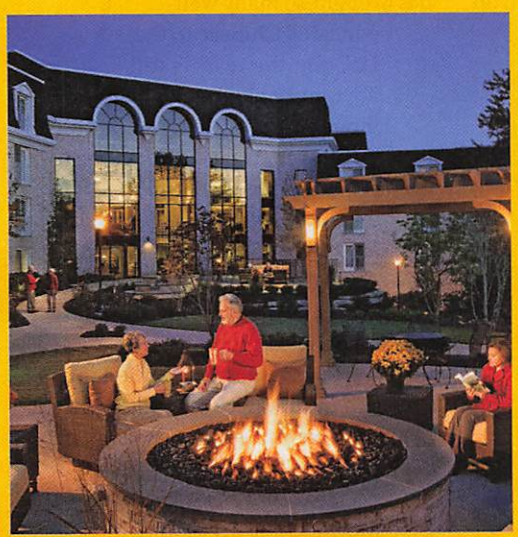
HELPING HANDS

What types of support would be most helpful in preparing for an encore career? Here's what individuals interested in such work say:

44%	Grants and scholarships
40%	Volunteer programs
36%	National service programs
34%	Additional training and education through community colleges or other schools

SOURCES: CIVIC VENTURES; METLIFE FOUNDATION

Not everyone retires to Florida.



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"Is the next Mark Zuckerberg going to live in China—despite the negatives?"

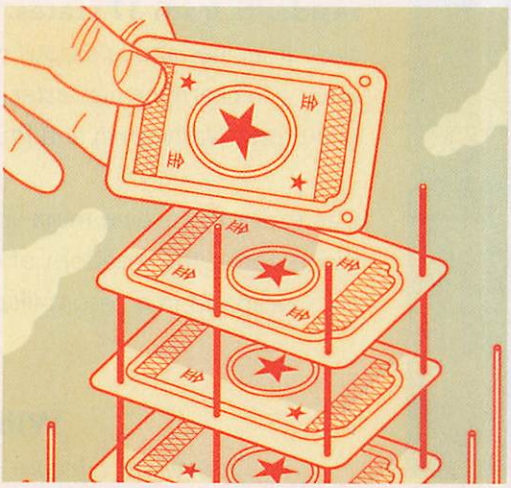
DYAN MACHAN, a senior writer at SmartMoney, can be reached at dmachan@smartmoney.com.

ERIC SCHMIDT, 33, moved to Beijing in 2002 after graduating from Rensselaer Polytechnic Institute in Troy, N.Y. Schmidt didn't speak Chinese and knew little about business. His first entrepreneurial ventures included a basketball camp that had middling success: "I made a lot of mistakes," he says.

But as China's market grew, Schmidt noticed that a little entrepreneurship club he had established in 2003 was getting standing-room-only crowds. In 2009 he turned the club into a business that focused on corporate networking and training. While such companies abound in the U.S. and Canada, the field was wide open in Beijing. Today, Schmidt's Cebex Group holds 100 conferences, forums and training sessions a year with companies like Microsoft, Citibank, KPMG and Lenovo. As for China? "Once you get in, you don't want to leave," Schmidt says.

Is the next Mark Zuckerberg going to be living in China? Seems that way, despite the negatives. In China, many rules for business are unclear or ill-defined, companies must operate under the whim of an authoritarian government, and founders can even go to jail for illegally borrowing money. But on a recent trip to Beijing and Shanghai, we met with entrepreneurs who were adamant they wouldn't be anywhere else.

Take Chinese-born Eric Wang, 26. Though he was brought up in Seattle and earned degrees in the States, when it came to starting an Internet car-sharing business, he didn't even consider the U.S. One reason had to do with scale: Recall the infamous highway snarl-up in 2010 that caused a 62-mile, nine-day traffic jam outside Beijing. His master's thesis was on solving transportation problems, and "that traffic jam was just stuck in my head," says Wang. In 2011 he bought a one-way ticket to Beijing.



Wang's parents, university professors in Seattle, were furious. "They called me stupid," he says. One reason his parents left China was wide-open opportunity for their son in the U.S. But times change. "You only have a few times in your career where you can shape an industry," says Wang.

$1.3 tril. Estimated size of China's "shadow" banking system

The brain drain that has brought so many well-educated Chinese to the U.S. over the years is still alive and well—but it's losing momentum. As of 2009 (the most recent year tracked), 89 percent of Chinese recipients of U.S. doctorates stayed in the U.S. at least five years after graduating—down from 98 percent in 2001, according to Oak Ridge Institute for Science and Education. And in a 2011 Kauffman Foundation survey of American-educated Chinese entrepreneurs who returned to China, 81 percent said that superior opportunity was their chief reason.

China clearly wants to encourage that thinking. The government understands the drawbacks of state-controlled enterprise and is loosening its grip on small business, notes Colin Wu, a Chinese national who is vice chairman of the U.S. China Business Association. "It realizes it has been too nosy," says Wu. One sign of progress: Several years ago, getting a business license could take more than six months and was so

For more insights about start-ups, visit smartmoney.com/small-business.

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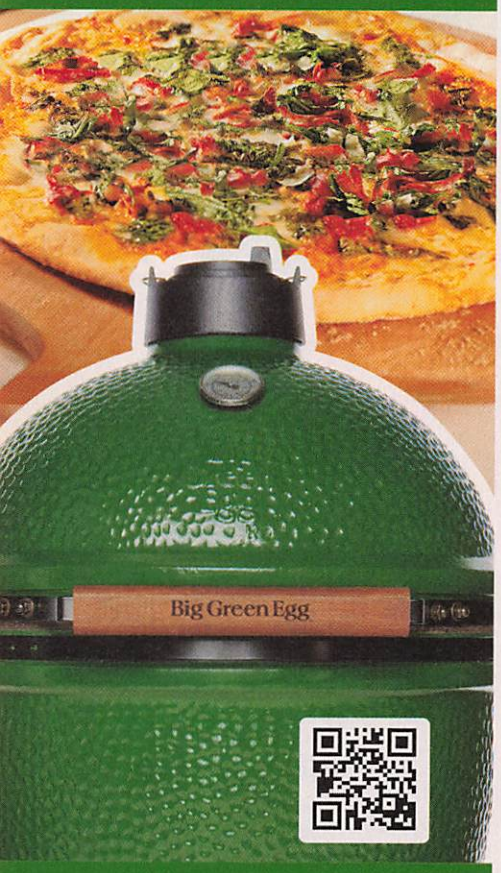

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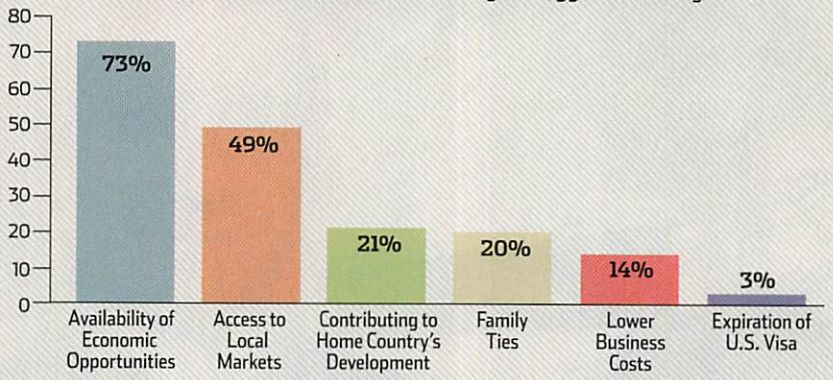
Why They're Going Home

In a recent survey of Chinese-born professionals who returned from the U.S. to China to start businesses, these were among the bigger motivating factors:



Note: Share of respondents citing factor as "extremely important."

SOURCE: THE KAUFFMAN FOUNDATION

complicated that Schmidt's Cebex Group held seminars on the process. Now it's simpler and takes less than two months, Schmidt says.

Raising capital is another notorious problem under China's state-run capitalism. The government-run banks generally loan only to the low-risk state businesses—and the below-inflation interest rates they pay to depositors discourage savers who yearn for higher returns. Angel investors and venture capital funds are allowed, but don't come close to meeting the burgeoning demand for loans. What's more, many business founders are reluctant to give up ownership.

As a result, many entrepreneurs have only a few financing options: Their own savings, borrowing from immediate family or turning to the country's huge (and illegal) shadow banking system. Emblematic of the issue is the widely publicized case of Wu Ying, a 32-year-old entrepreneur who was sentenced to death for fraud after raising money from investors and failing to pay them back. Following a public outcry, the courts reduced her sentence to life in prison.

The government is wrestling with bank reform to give cash-starved companies access to loans, according to Colin Wu. At a news conference this spring, Premier Wen Jiaboa called for allowing private capital into the financial sector and breaking up the "monopoly" of big banks, and he endorsed bringing private finance into the open. In a pilot program in one city, investors have been permitted to set up private banks.

Turning on the capital spigot couldn't come too soon for Huiling Cheng, 48. Cheng borrowed from every member of her family to start CitiKing Trading, a Shanghai company that makes window-surfacing and wood products; within three years, she paid them back. Cheng says her 11-year-old firm, which has 300 employees, could be double its size if she had access to capital, but banks won't lend to her. "It's very frustrating," says Cheng. "We give our life to this business."

Yifeng Hu, 35, started his mobile Internet company, iEdge, several months ago with his and his partner's savings, and may seek angel investors once the business gets some traction. In a Shanghai coffee shop populated mostly by students, Hu speaks French-accented English, a by-product of years working in the Paris office of Boston Consulting Group. He's drawn to a market where smartphone-application use is soaring. But he's also aware that the government can make rule changes overnight that could wreak havoc on his business plan. Even so, the opportunity outweighs the risk. "Every company in the world is restricted in some way," Hu says, "but still you can do something."

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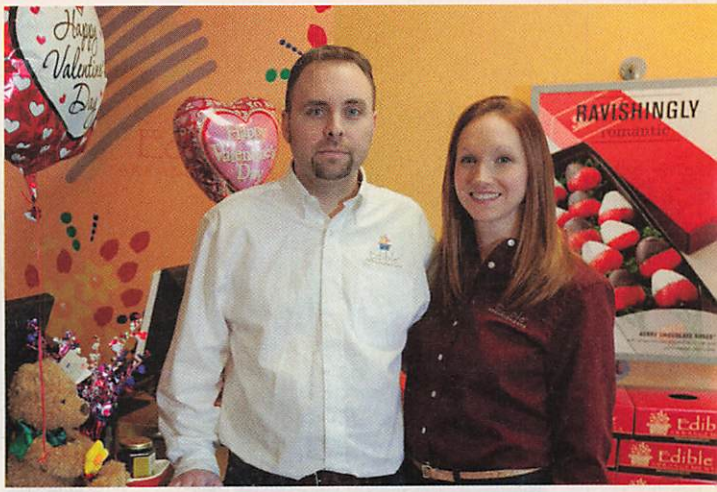

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Q I have a federal student loan with an 8.5 percent interest rate. Should I pay it off now or consolidate all my debt after I graduate? —Michelle Jossen, Springfield, Mass.

You won't be penalized for repaying the loan early, experts say. But they still caution against becoming cash poor in the process—especially if you've got other looming postgraduation financial needs, like buying a car or having an emergency fund to help you ride out the wobbly job market. In that case, it might make more sense to wait and consolidate at a lower rate, and put your resources toward those other goals, says Scott Weingold, cofounder of College Planning Network in Mayfield Heights, Ohio. Plus, he points out, the Obama administration has proposed a "Pay As You Earn" plan that, if approved, could lower your monthly payments.

Got a question? Submit it at smartmoney.com/ask and reporter Anna Prior will try to answer it. A full archive of past questions and answers can be found there as well.

I'd like to avoid bonds because of their current low yields and interest-rate risk. What are some good, inflation-hedging alternatives to consider? —Toby Lawson, New York City

Most financial planners would advise against forgoing bonds completely. But you're right on one front: If you're looking for inflation protection, bonds aren't it, says Paul Baumbach, a financial planner and founder of Mallard Advisors in Newark, Del., with more than $100 million under management. Experts say that even TIPS (Treasury inflation-protected securities), government bonds that adjust the principal to keep up with inflation, aren't really worth it at today's high prices. (You can blame overwhelming investor demand.) Historically, in high-inflation environments, stocks have performed the best, says Baumbach; so consider filling that gap with fixed-income instruments that are a bit less "bond-like," such as high-yield debt—or convertibles, which are bonds that can be converted into common stock.

I'd like to suggest a low-cost 401(k) plan to my employer. How can I find options? —Ron Moe, Carson City, Nev.

In the 401(k) world, there's a long-standing debate over how much bang you actually get for your management-fee buck. But one thing that influences the cost-efficiency of an employer's fund offerings is the company's size. Brokers may be more willing to discount their fees for bigger firms with employee account balances that average at least $50,000, says David Wray, president of the Plan Sponsor Council of America, an industry association. If you work for a smaller company, he says, you can ask your employer to add cheaper index funds to the lineup (fees run $13 to $20 per $10,000 invested, compared with $70 to $90 for actively managed funds).

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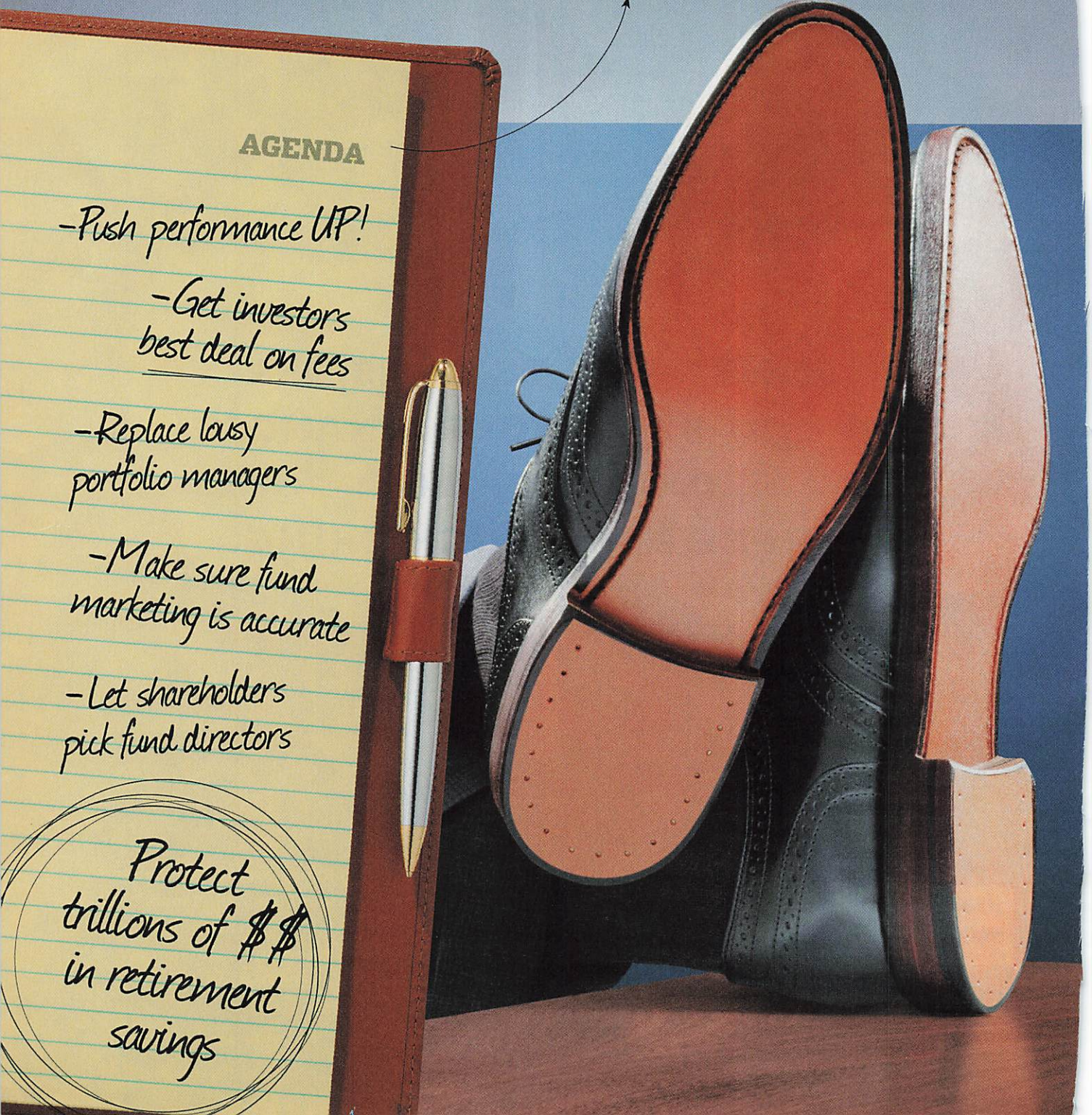
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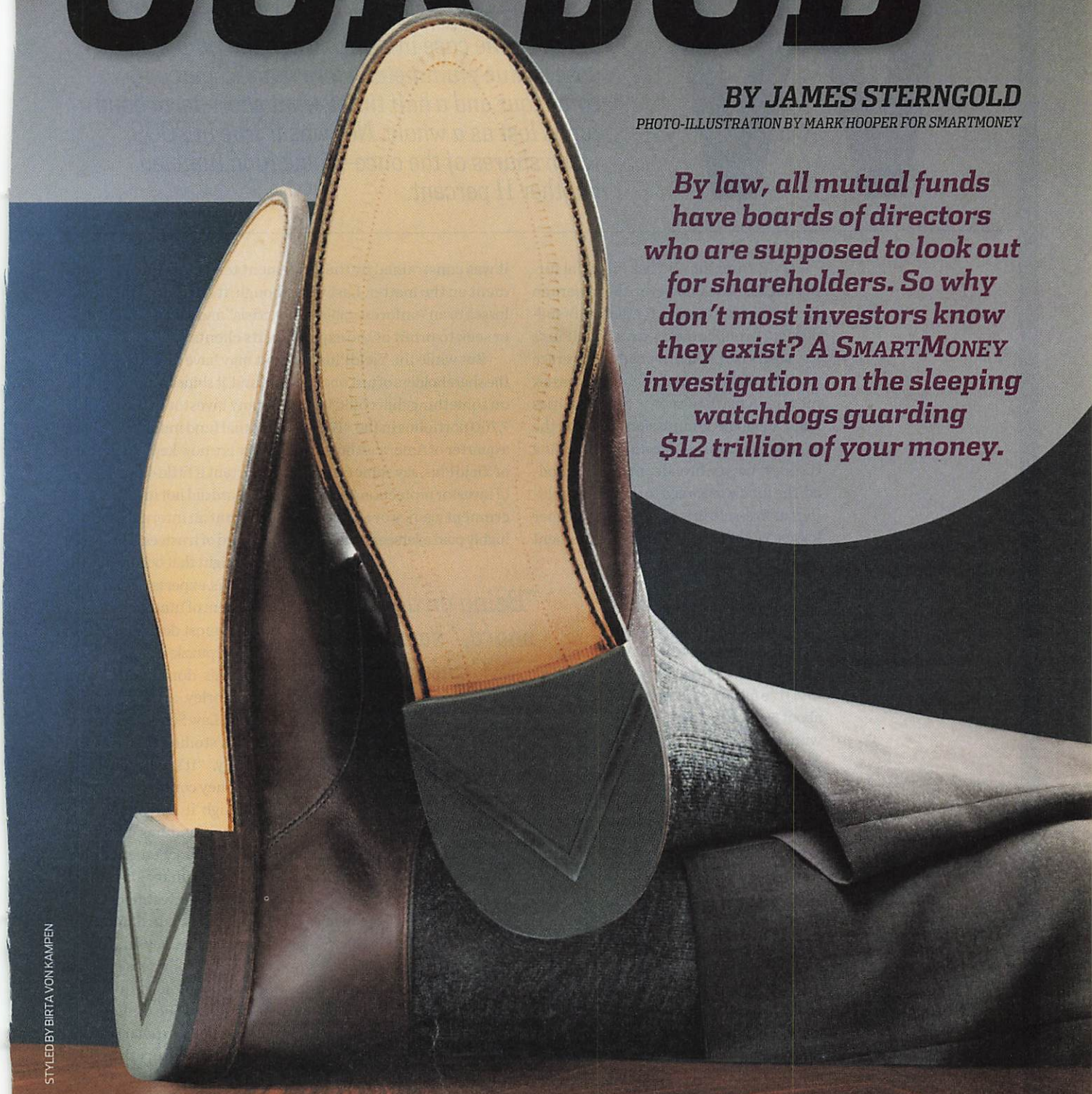
OUR JOB'

BY JAMES STERNGOLD

PHOTO-ILLUSTRATION BY MARK HOOPER FOR SMARTMONEY

By law, all mutual funds have boards of directors who are supposed to look out for shareholders. So why don't most investors know they exist? A SMARTMONEY investigation on the sleeping watchdogs guarding $12 trillion of your money.



STYLED BY BIRTA VON KAMPEN

When Charles Schwab's popular YieldPlus bond fund started to tank during the financial meltdown, the fund's problems went beyond the queasy markets. YieldPlus, according to the fund's prospectus, was designed to offer "high current income with minimal changes in share price." That didn't turn out to be the case in 2008, when the fund's net asset value plummeted more than 35 percent, some four and a half times what short-term bond funds lost as a whole. Nor was it true in 2009, when shares of the once-stable fund tumbled another 11 percent.

Apart from the obvious financial turmoil of the times, however, there were an array of hidden reasons for the fund's sudden fall. In public disclosures, YieldPlus's managers had said the weighted average maturity of the bonds the fund held was six months, a mark of safety; the Securities and Exchange Commission later said the average reached as high as 2.2 years. As a result, when the broader market imploded, the fund was forced to unload its holdings at fire-sale prices, leading to deeper losses. YieldPlus's registration statement said the managers would not place more than 25 percent of assets in certain types of securities, at least not without explicit shareholder approval. But not long before the market went into free fall, managers stuffed about 50 percent of its portfolio with nongovernment mortgage bonds, the SEC said in a January 2011 cease-and-desist order. And during the crisis, when investors and brokers asked if redemptions were draining the fund, Schwab's lead portfolio manager said in a conference call, "We've got very, very, very slight negative flows," according to the SEC. In fact, the fund had hemorrhaged more than $1 billion in the preceding two weeks.

In the end, Schwab, without admitting or denying wrongdoing, would agree to pay $119 million to settle SEC civil charges that it misled investors; the company also paid $235 million to settle a private case brought by investors. Schwab, saying it was constrained by the settlement terms, declined to comment on the matter. Last year, though, it attributed the fund's losses to an "unforeseeable credit crisis" and said it "would never seek to profit at the expense of its clients."

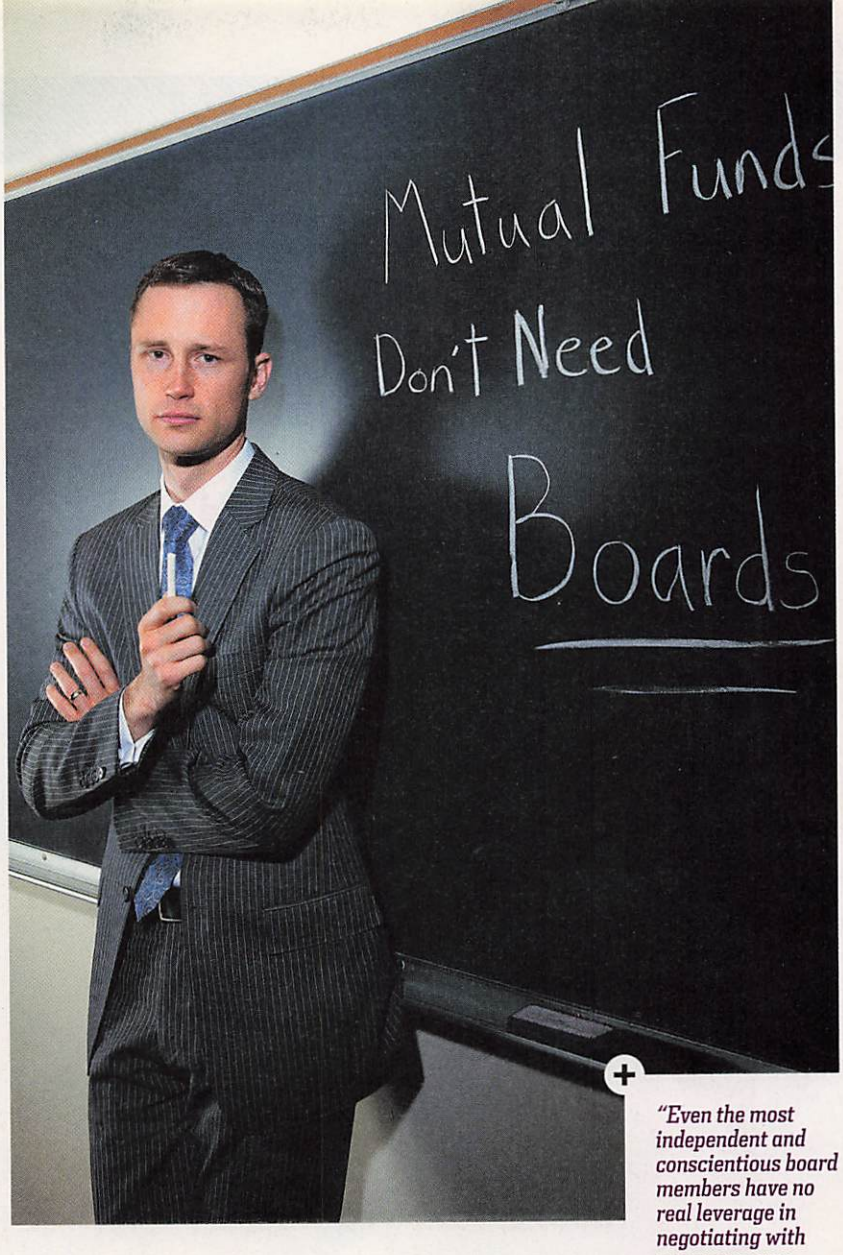
But while the YieldPlus incident may have directly affected the shareholders of just one Schwab fund, it shines a rare spotlight on something that could well affect any investor in the roughly 7,700 portfolios in the $12 trillion mutual fund industry—where a quarter of American household assets are now kept. In the case of YieldPlus, say some critics, an important if little-known layer of investor protection failed. This safeguard did not involve a government agency or an outside auditor, but an internal group of highly paid overseers: the fund's own board of trustees. The lapses in oversight that occurred with YieldPlus, experts say, are part of a system of fund governance that is almost designed to fail. "The real puzzle isn't why these safeguards don't work," says John Morley, a University of Virginia Law School professor who has studied the issue extensively. "It's why anybody thinks they could work."

> *"Being on a fund board," says an ex–SEC chief, "is the most comfortable position in corporate America."*

Though it may come as a surprise to most investors, every mutual fund has a built-in mechanism to try to shield investors from management disasters: a board of directors or trustees whose primary job is to act as a watchdog for shareholders. Created by the Investment Company Act of 1940, the boards have a clear mandate to monitor potential conflicts of interest, review and approve key fund documents such as prospectuses, and ensure that advisers provide satisfactory investment returns with reasonable fees. In theory, fund directors fulfill the same general role as the directors of public companies, with broad powers to safeguard shareholder interests—including, if necessary, firing the advisory firm running the fund. "Without boards, you would have rogues who would take advantage of the public," says Dorothy Berry, presi-

dent of Talon Industries in New York, who has served as a mutual fund trustee for the $8.7 billion PNC fund family and who chairs an industry trade group, the Independent Directors Council.

But a five-month investigation by SmartMoney shows that this layer of protection may be among investors' most porous. Unlike their cousins in corporate America, mutual fund boards typically don't hold annual shareholder meetings or shareholder votes. It is almost unheard-of for a fund's investors—its owners—to remove a director or change the management fee. Even the notion that the boards have an "arm's-length bargaining" relationship with the advisory companies they hire and oversee is something of a legal fiction. No less an authority than the U.S. Supreme Court has noted, in a 2010 ruling, that a mutual fund often "cannot, as a practical matter, sever its relationship with the adviser." Indeed, that inseparable relationship begins on day one: When an advisory firm opens up a new small-cap stock fund or long-term bond portfolio, for example, it handpicks that fund's directors—who, in theory, can vote themselves onto the board for life. (Fifteen percent of mutual fund directors stay for 20 years or more, while only 6 percent of corporate directors stay that long, according to research firm GMI Ratings.)



"Even the most independent and conscientious board members have no real leverage in negotiating with managers over fees," says ***JOHN MORLEY****, a University of Virginia Law School professor.*

Still, while shareholder activists and regulators have brought corporate boards to heel in recent years, advocates say there's nothing in place to prevent another YieldPlus debacle from happening in the fund industry. Last decade's lapses of corporate governance have since become the stuff of business-school case studies, but mutual fund boards have received scant attention, even though the stakes for the public are tremendous. About half of America's retirement savings—including IRAs and money held in defined-contribution plans like 401(k)s—is invested in funds. Participants in many company 401(k) plans, moreover, have only a handful of funds to choose from.

The lack of attention frustrates investor advocates like Niels Holch, a Washington, D.C., lawyer who started the Coalition of Mutual Fund Investors in 2003 to agitate for reform in the wake of past fund scandals. He says he has had little luck mobilizing investors, despite the fact that many of the board members' salaries, which are determined by the directors themselves and taken out of shareholder assets, are so eye-catching. Indeed, directors, who typically attend between four and eight multiday board meetings a year, are paid an average of roughly $260,000 annually at the largest mutual fund families, according to a SmartMoney analysis. One longtime fund director, at a smaller fund family, pulls in more than $1 million a year overseeing some 170 mutual funds. Having watchdogs so cozily ensconced "diminishes their ability to stand up to managers," says former SEC chairman Arthur Levitt, echoing the view of many experts interviewed for this story. "Being on a mutual fund board," he says, "is the most comfortable position in corporate America."

In the case of Schwab's YieldPlus, many of the management mishaps were "classic examples of things where boards are supposed to have responsibility," says Alan Palmiter, a professor at Wake Forest University School of Law and an expert on mutual funds. According to the SEC's order, the YieldPlus board let managers break the fund's 25 percent limit on holdings of certain risky mortgage bonds, approving this critical change without put-

Photograph by Nathaniel Welch for SmartMoney

Circle of Trust?

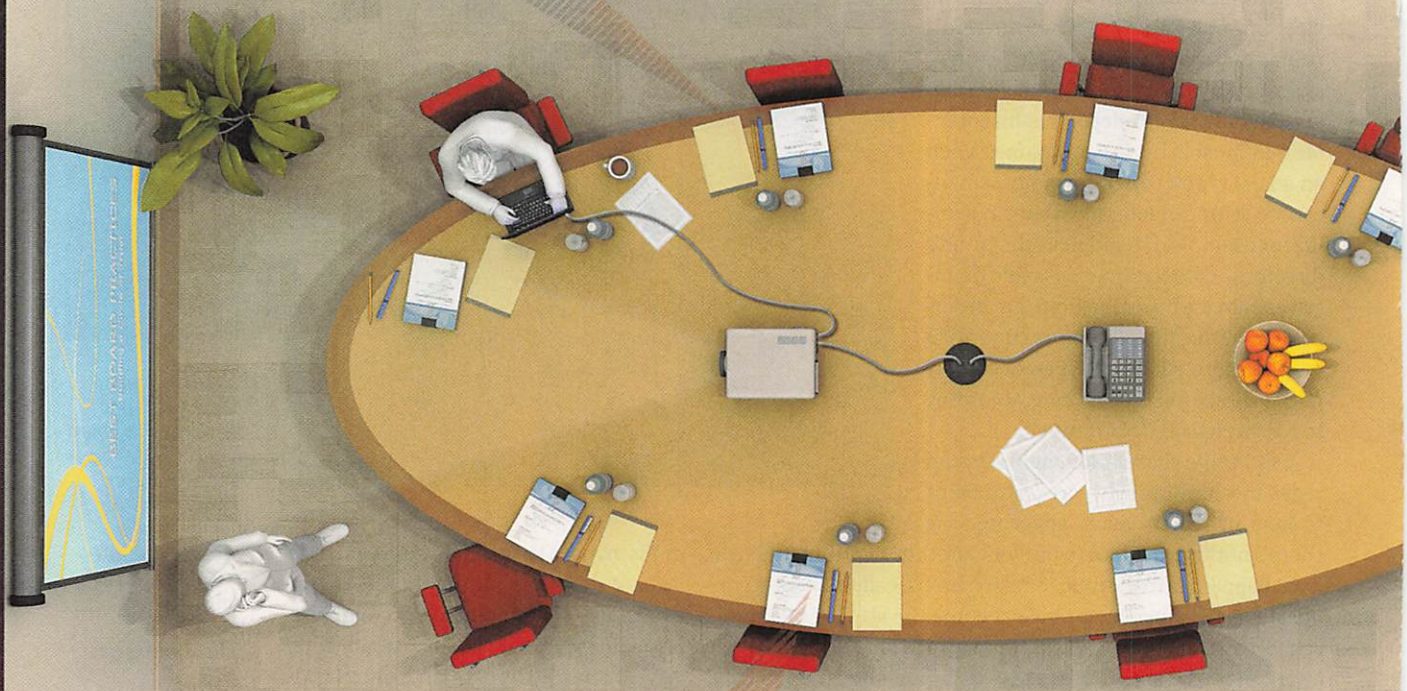
Investor advocates say governance at America's mutual funds could be a lot more rigorous. Here are seven boardroom concerns critics say should be on the table.

No Investors Allowed

Public corporations hold annual shareholder meetings; mutual fund boards generally don't. "As a practical matter, there is no shareholder democracy in the mutual fund industry," says former SEC official Mercer Bullard, now a law professor at the University of Mississippi.

Pay—But No Say

Independent directors decide, by themselves, what to pay themselves—and the dollar figures are not insignificant. Directors at the largest 25 firms are paid an average of roughly $260,000 a year.



No Limit

Fund companies can charge Main Street investors much more than what they charge institutional clients for similar services. And many do. That's one reason, experts say, for the industry's fat profits: The average pretax operating margin for fund firms, says one study, is almost 40 percent.

Family Ties

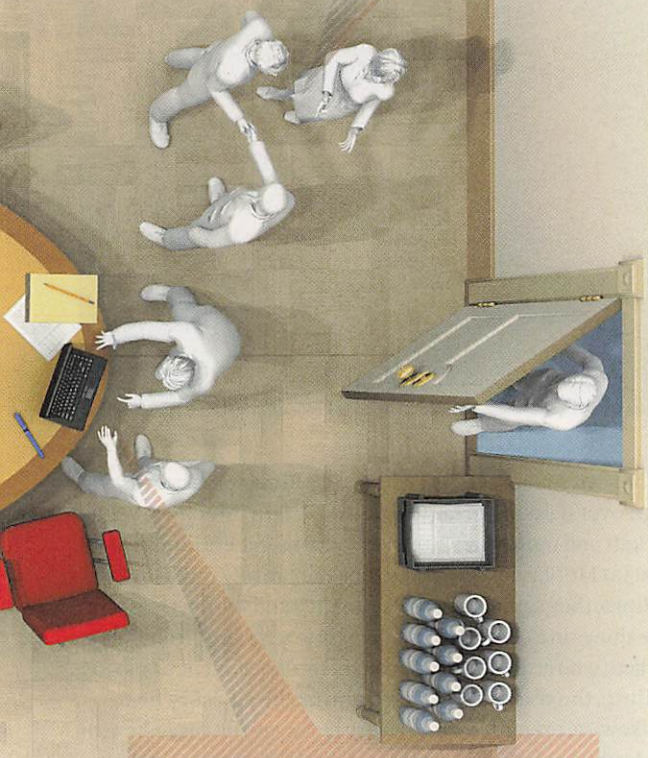
At least 40 percent of a board's directors are required to be independent from the advisory firm they oversee. But that can be interpreted loosely, critics say. Some former fund executives, for example, go on to serve as independent directors at the same fund firm.

Lifetime Security

Fifteen percent of mutual fund directors stay on the board for 20 years or longer—and three decades on the job is not unheard of. Many board members, in fact, serve well into their 70s and 80s.

Heavy Homework

Trustees must review hundreds of pages of regulatory documents for each fund they oversee. Before the directors at one firm decided to go digital, in fact, the board was sent nearly 60 pounds' worth of documents to review for each meeting. (That firm had fewer than 50 funds.)



Performance Anxiety

Before signing a management firm's annual contract, directors are required to consider its track record—a fact investors may be surprised to learn. After all, in 2011, only one-fifth of actively managed equity funds beat the S&P 500 index, according to Morningstar.

ting it to the required shareholder vote. The judge overseeing the private lawsuit against Schwab called the board's decision to remove the concentration limit "an entire repudiation of a clear-cut definition that had become a fixture of the fund." (A Schwab spokesperson says its fund trustees "are wholly committed to acting in the best interest of shareholders.")

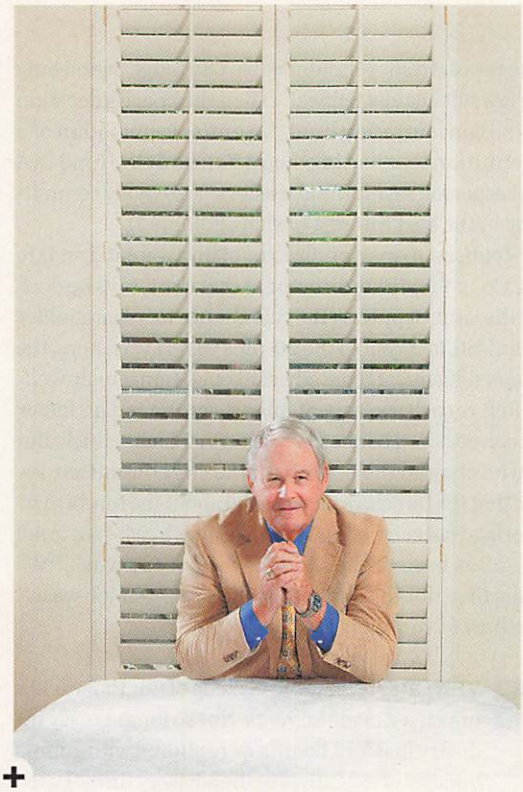
Donald Stephens, managing director of investment firm D.R. Stephens & Co., a YieldPlus director at that time, says he does not recall if the issue of putting the rule change to a shareholder vote came up. Still, he says, "in the 20-plus years I was there, the board was very diligent, and the adviser kept us amazingly well-informed." Before each meeting, Stephens says, he and his fellow directors received board books that were 8 or 9 inches thick. But Stephens, who chaired the board's marketing committee, acknowledges that the directors never asked about the fund's marketing materials that seemed to offer investors a risk-free fund; that, he says, was beyond the scope of the board's work. "We weren't really there for the marketing," he says. "Our job wasn't to tell them how to run their business."

EVEN CRITICS say the makeup of fund boards has improved over the years. Not so long ago, say industry insiders, boards were stuffed with golfing buddies of executives at the advisory firm. "I used to see dentists or the owner of a local car dealer," says Paul Dykstra, a Chicago-based partner at K&L Gates who advises mutual funds and boards. But today, he says, empty slots for "independent" directors are often filled from the usual spots: business-school faculty, Wall Street, the Harvard Club. (Boards typically also have a small number of "interested" directors, who are affiliated with the adviser.) According to a SMARTMONEY analysis of 217 independent directors at the 25 largest fund families, by actively managed assets, more than a third are current or former company CEOs, at least 62 have MBAs, and 43 are professors—current or emeritus. One is a cardiologist.

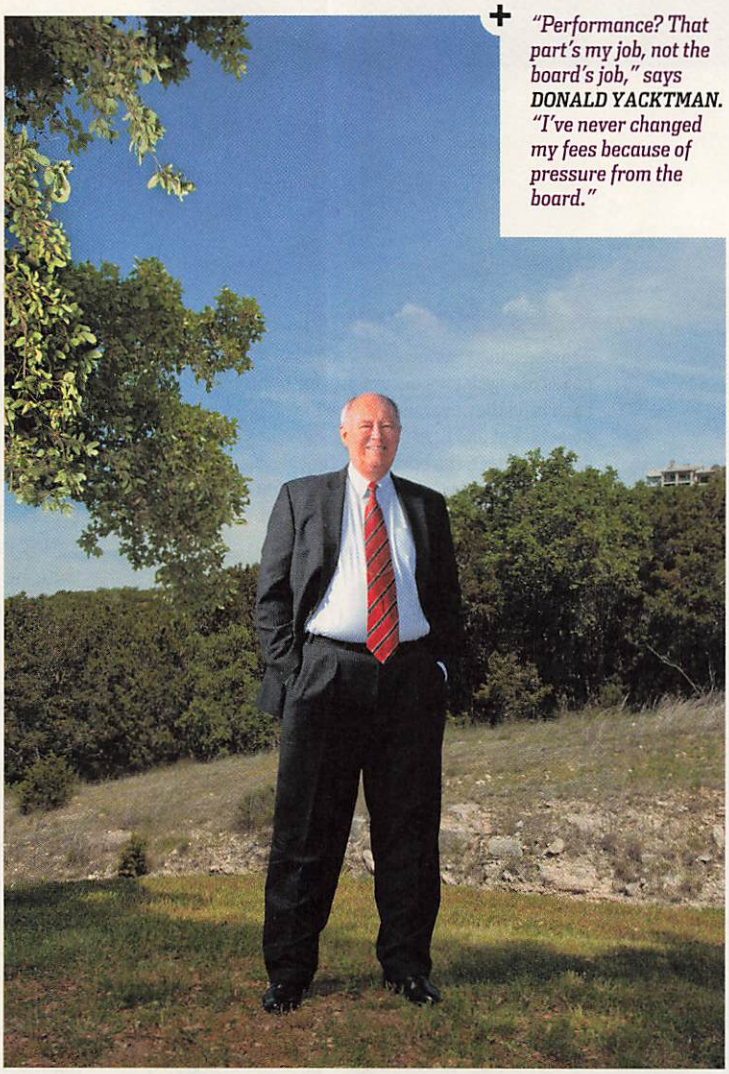
Nonetheless, an occasional celebrity figure or sports legend ends up in this inner circle—names such as Stefanie Powers, the actress, or Gale Sayers, the onetime Chicago Bears running back and Pro Football Hall of Famer who built his own $85 million technology business. Powers, who serves on an American Funds board that oversees the $72 billion Capital World Growth and Income fund as well as two other portfolios, starred five seasons in the 1980s television series *Hart to Hart*. "She certainly brings a perspective to it that others do not," says Paul Haaga, chairman of Capital Research and Management, the advisory company that manages the giant American Funds family. (Powers and Sayers declined to comment for this article.)

But while individual qualifications are rarely an issue, investor advocates say mutual funds allow far too many directors to serve on multiple boards. In the realm of public companies, people can draw criticism for sitting on more than a handful of boards. But YieldPlus's trustees, in 2010, each served on the boards of 72 other Schwab funds—each with its own lengthy prospectus, regulatory filings and compliance issues to review. And that, it turns out, is nothing compared with Bruce Crockett's responsibilities on behalf of investors in the Invesco family of

Infographics by Emily Cooper for SmartMoney



"In my view, a board can't do 100 funds," says ***DICK ZUCKER****, a former fighter pilot and now chairman of the board that oversees the 46 USAA funds.*



"Performance? That part's my job, not the board's job," says ***DONALD YACKTMAN.*** *"I've never changed my fees because of pressure from the board."*

funds. Crockett, a former CEO of satellite company Comsat, is a shareholder watchdog for 140 stock and bond funds, roles for which he was paid $693,500 in 2011. For many critics, vetting so many funds is hard to fathom and is a prescription for overwhelmed and passive boards. "Maybe we're just not as smart as they are," says Steven Melnyk, a former ABC golf commentator–turned–investment banker, who says he has his hands full serving on three fund boards at Longleaf Partners. "But I can't imagine how, if you're at a large fund complex, you could find the time to really review everything you need to look at." The required reading alone, says John Bogle, founder of fund giant Vanguard, underscores the challenge. "Mutual fund directors," he says, "are either not being paid nearly enough for what they should be doing—or far too much for what they actually do."

In an interview, Crockett, who has served as a fund trustee for 34 years, says directors can handle multiple board duties because many of the issues are similar and because directors become quick studies. "The more funds the board oversees, the more economies of scale you enjoy," he says. And to ease the workload a little, some boards will assign oversight of certain funds to certain directors. While Crockett and more than 20 other board members interviewed by SmartMoney acknowledge that they rarely duke it out at meetings, they say it is only because they and the advisers tend to see things in a common light: "Our interests are aligned," says Crockett, who also sits on the board of the Investment Company Institute, the trade group representing the advisory firms.

Likewise, executives at advisory firms say the suggestion of board rubber-stamping is off the mark. "I'm not stupid," says Capital Research and Management chairman Haaga. "I don't make proposals that will be rejected by the board." Still, investor advocates say there's a thin line between getting along and going along. In the world of corporate governance, by comparison, some boards have openly clashed with executives, with directors at roughly a dozen major companies replacing CEOs in 2011. But fund insiders say they can't recall more than a handful of cases of advisers being replaced; it's rare for a board to even push for the firing of a portfolio manager. In response, directors say that kind of pressure isn't needed, because advisers know when one of their own isn't performing well. "I don't have to tell them to fire Joe Jones or somebody," says Crockett. "It's not our job."

Photographs by Matthew Mahon for SmartMoney

But few investors know what the duties of fund directors are, in part because funds don't hold shareholder meetings. Nor would most outsiders have an easy time finding out how much trustees get paid or how many boards they sit on—such details are tucked in an obscure document called the "Statement of Additional Information." Among the surprises: A former top executive of The Dreyfus Corp. is the "independent" chairman of the board for 173 funds in the Dreyfus family. Joseph DiMartino, who was the company's president until retiring in 1994, was given the role of board chairman a year later and now receives a $1 million–plus pay package from Dreyfus fund investors. A spokesperson for Dreyfus says it "does not elect fund board members or determine or approve board member compensation." DiMartino declined to comment, but one fellow trustee, W. Hodding Carter III, a former State Department official, says DiMartino uses his experience to extract good deals on fees for shareholders. "Do I have any quibbles over paying him $1 million?" asks Carter. "No, he works his ass off."

At the J.P. Morgan fund complex, Fergus Reid III, the 79-year-old chairman of a plastic-injection-molding company, serves as chairman of all 154 family funds—while also sitting on the boards of 105 funds run by one of the firm's longtime rivals, Morgan Stanley Investment Management. In an interview, Reid, who earned nearly $660,000 in 2011 for the multiple board roles, says his "personal firewall is just as honorable" as that of any big auditor or law firm that represents competing businesses in the same industry. Still, he says, the fact that no one has ever challenged him on the issue "does surprise me a little." (J.P. Morgan Asset Management says it is confident in the commitment of board members; Morgan Stanley declined to comment.)

FUND MELTDOWNS, such as the one at YieldPlus, are rare. But critics say millions of Americans have already experienced the cost of the mutual fund governance problem—and that it is far from small. The impact, they say, begins with the industry's own performance and ends with the high management fees that eat even further into those returns. In 2011, only 23 percent of actively managed equity funds beat their benchmarks (and only 20 percent beat Standard & Poor's 500-stock index). It was, according to Morningstar, the worst showing for active fund managers in more than a decade. Over the past five years, 61 percent of stock funds have lagged the S&P 500.

That weak performance, most studies say, is partly due to fees and other expenses. On an asset-weighted basis, the average actively managed stock fund charges shareholders annual expenses of 0.9 percent, or $90 for every $10,000 invested, according to Morningstar. Even the most successful managers find that headwind difficult to offset over time. (Index funds consistently outperform their managed counterparts after expenses, which average an asset-weighted $16 per $10,000 invested.) And, of course, some funds also assess sales loads of 5 percent or more. Such fees "make a huge difference" in the bottom line but rarely get attention, says Annette Nazareth, a former SEC commissioner.

John Hill, a director of Putnam Investments' funds, says the fees his board negotiates are "a great deal for investors," particu-

Board Buffet

Drawing from the realms of Hollywood, politics and even the gridiron, fund boards can have an eclectic feel. A sampler:

Robert Gates

FIDELITY, 1997 TO 2006

The former secretary of defense and onetime president of Texas A&M was chairman of all 300-plus Fidelity fund boards.

Stefanie Powers

AMERICAN FUNDS, 1993 TO PRESENT

Powers, who starred on the hit 1980s TV show *Hart to Hart*, helps watch over the $72 billion Capital World Growth and Income fund.

Gale Sayers

AMERICAN CENTURY, 2000 TO 2010

Until recently, the Hall of Fame Chicago Bears running back and tech entrepreneur oversaw 63 funds.

W. Hodding Carter III

DREYFUS, 1988 TO PRESENT

The onetime assistant secretary of state for public affairs (during the Carter administration) is now a college professor and watches over 29 funds.

William Armstrong

OPPENHEIMERFUNDS, 1999 TO 2012

A former U.S. senator and current college president, Armstrong served as board chairman for 36 funds.

Linda Wolf

JANUS, 2005 TO PRESENT

The now-retired chairman and CEO of venerable ad agency Leo Burnett Worldwide is today a trustee for 56 portfolios.

Illustrations by Joe McKendry for SmartMoney

larly compared with European funds, though he concedes that may not be so obvious to shareholders, who don't get to see the financial data the board sees. By their own admission, however, many fund board members say they are loath to quibble with advisory firms over fees. If they wield too heavy a hand—or force fees too low—they'll risk losing the most talented portfolio managers to higher-paying hedge fund jobs. But critics long familiar with the fund industry—including former SEC chairman Levitt and Harvard's John Coates—say fund directors simply don't have the incentive to push back on fees. "Absolutely, the board does not negotiate the lowest price," contends Coates, the author of several influential studies on mutual funds. "There is really a kind of bargain" that this "quasi-regulatory body" offers, he says. "They shelter the advisers from lawsuits; in return, they provide a weak check on advisers."

Ultimately, though not great for investors, such fees remain the bread and butter of advisory firms, fattening up profit margins to a level that would be the envy of most major public corporations. Indeed, fund research firm Strategic Insight has calculated average pretax operating margins for publicly owned advisory companies at almost 40 percent, nearly three times the average for S&P 500 companies; one company, Capital Research and Management, had profit margins of about 50 percent in several years prior to 2007. "I think investors would be shocked if they really saw how profitable funds can be," says Paul Ellenbogen, a consultant to fund boards for Morningstar.

FOR NOW, few advocates anticipate that legislators will take up any new reform initiatives on mutual funds. Indeed, when Congress drafted the sweeping changes of the Dodd-Frank Act, an effort intended to curtail some of the more egregious practices that led to the recent financial crisis, the fund industry was left virtually untouched. According to Barry Barbash, an attorney who once ran the SEC's division of investment management and who now represents fund boards, mutual funds didn't sell the subprime mort-

The Directors

The Workload. The Pay.

SmartMoney pored through the regulatory filings of the 25 largest mutual fund families to paint a portrait-by-numbers of their directors. A look at who's protecting your money, how many portfolios are under their watch—and how much they get paid for the effort.

NUMBER OF FUNDS EACH DIRECTOR OVERSEES

MOST	AVERAGE	LEAST
180	91	5
Eaton Vance		Dodge & Cox

RANGE OF COMPENSATION

HIGHEST

Invesco — Bruce Crockett — $693,500*

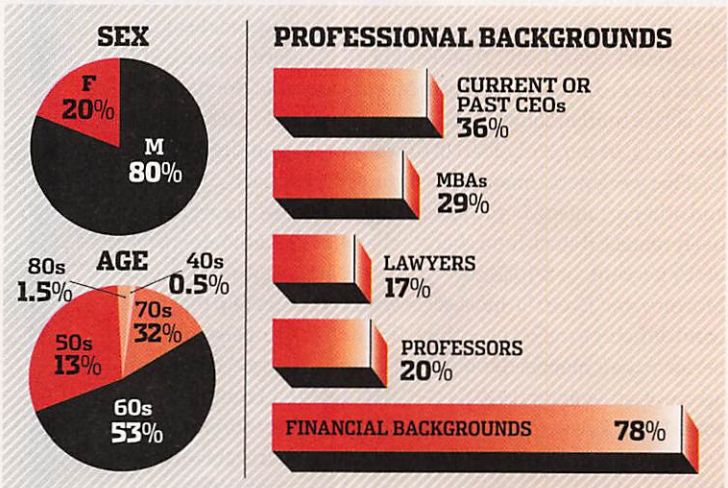
AVERAGE

$258,940

LOWEST

American Funds, Dodge & Cox — Elisabeth Allison, Ann Mather — $120,500

BACKGROUNDS THEY SHARE



Based on a SmartMoney analysis of 217 independent directors at the 25 largest fund families (by actively managed assets). Some fund families have multiple boards; not every director oversees every fund.
*Crockett says "innumerable extra meetings related to acquisitions" and litigation "inflated" his 2011 compensation.

Illustrations by Emily Cooper for SmartMoney

So Much Responsibility...

Directors at the 25 largest fund families must oversee funds with assets rivaling the GDP of some nations.

ASSETS

GROUP TOTAL
$5 TRILLION

AVERAGE PER FUND FAMILY
$211 BILLION

LARGEST FUND FAMILY
(AMERICAN FUNDS)
$914 BILLION

GDP OF JAPAN
$5 TRILLION

GDP OF IRELAND
$207 BILLION

APPLE'S MARKET CAP
$517 BILLION

So Much Reading...

What's required for **just one fund board.**

PROSPECTUS ..... **72 Pages**

ANNUAL REPORT ..... **52 Pages**

STATEMENT OF ADDITIONAL INFORMATION ..... **320 Pages**

BOARD BOOK ..... **500 to 1,100 Pages**

(This can contain reports from portfolio managers, subadvisers, auditors, other service providers and consultants; it can also include information about regulatory updates, marketing and distribution, new products and investments, and expenses.)

TOTAL ..... **UP TO 1,600 PAGES**

...And So Little Time

How often mutual fund boards of directors typically meet.

FEWER THAN 15 DAYS A YEAR

SOURCES: BEA; PAUL DYKSTRA; MANAGEMENT PRACTICE; MORNINGSTAR; SEC FILINGS; SUNSHINE REVIEW; WORLD BANK; SMARTMONEY RESEARCH

gage securities or credit-default swaps that became such a lightning rod for change. "They were perceived to be more victims of the financial crisis," he says.

If change is going to come, most observers say, the fund industry itself will probably have to make it happen, if only to respond to growing criticism about mutual fund performance in general. Quietly, a handful of firms have taken some steps. Among the biggest is the one from Fidelity, which in 2008 split in two the board that had overseen 376 funds; the fund giant cited as a reason growth in its business and "the increasing complexity of the securities marketplace." Likewise, Dick Zucker, vice president of a San Antonio roofing company and chairman of the USAA fund board, says he and his fellow directors have already discussed splitting the board in two, should the firm grow much bigger than it is. USAA has just 46 funds now.

Some years back, one adviser offered a more forceful critique of the fund-oversight system: He persuaded his investors to sack his whole board. In the 1990s, Donald Yacktman, the blunt, charismatic Midwesterner who runs Yacktman Asset Management, grew so frustrated with his fund's then-directors that he organized a rare shareholder vote to have them replaced. Indeed, while Yacktman, 70, offers effusive praise for his current directors, he's still dismissive of fund boards in general. "Much of what they do is protect the SEC from blame if there's ever a problem," he says. "It's like an extra X-ray that a doctor does to avoid lawsuits."

Dan Calabria, a former executive at the Oppenheimer and Templeton funds, agrees—at least about one thing: The boards, he says, do little to help investors as they stand now. But Calabria, who served on several fund boards before retiring in 2007, insists it doesn't have to remain that way. He contends that these watchdogs already have the statutory power they need to get the best deals for shareholders—but that investors must first get organized and demand they use it. "We need to form a labor union of mutual fund shareholders," says Calabria. Short of that, there's no chance the system will change, he says. "No way."

Additional reporting by Linda Lacina.

Book Excerpt
Man Made: A Stupid Quest for Masculinity

Trading Places

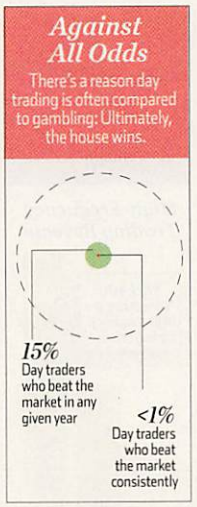
Does the high-speed world of day trading have anything to teach hands-on investors? A new book takes an inside look at today's professional stock flippers.

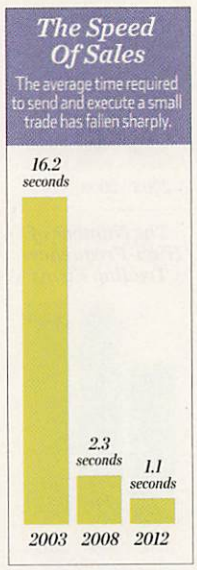
By Joel Stein

Photograph by John Kuczala for SmartMoney

IT MAKES UP ROUGHLY *70 percent of the trading volume on the New York Stock Exchange—and makes an even greater percentage of people nervous. High-frequency trading, which is dominated by financial firms using computers capable of moving millions of shares per minute, now accounts for the lion's share of the market and is expected to get even bigger in coming years. But competing with these machines are a host of independent trading outfits that let individuals get into the game, matching wits—and button-pushing reflexes—with Wall Street's algorithms.*

In his new book, Man Made: A Stupid Quest for Masculinity, *national columnist and TV pundit Joel Stein decides to try his hand at trading with the big boys. Stein persuades Matt Nadell, a day trader at one of these firms, to spot him $100,000 to trade for a day. Along the way, Stein learns about day trading's Battle of the Bulge (aka the flash crash of 2010), the value of embracing risk—and how hitting one wrong key can cost you $15,000.*


Against All Odds
There's a reason day trading is often compared to gambling: Ultimately, the house wins.
15%
Day traders who beat the market in any given year
<1%
Day traders who beat the market consistently



SOURCES: KNIGHT CAPITAL; PEKING UNIV. RESEARCH; THOMSON REUTERS; UNIV. OF CALIF., BERKELEY; UNIV. OF CALIF., DAVIS

Great Point Capital, one of Chicago's biggest day-trading firms, is on the 14th floor of a building just across the street from the city's Federal Reserve Bank and next to the Chicago Board of Trade. It's located in a large, empty office space filled with long desks where badly dressed men sit next to one another and work on computers that are each hooked up to many monitors.

This is, I think, a nice office. But I'm not sure, since it's really dark in here. All the time. No one ever turns on the lights in the office, because it would cause a glare on their screens. Which adds to the empty feeling of this giant space, where most of the desks are empty—abandoned since the market's downturn a few years ago.

Matt Nadell, a clean-cut 26-year-old who's already made a small fortune as a day trader, greets me with a power smoothie and a protein bar. He's decided to put me through a day of training before he hands over the $100,000 tomorrow. He's cautious that way.

He starts with the basics. Like what day traders do. Before this morning, I assumed it had to do with analyzing sales figures and doing math and talking to China. That is not what they do at all. They gamble. When Matt decides to buy stock in a company, he has no interest in the price/earnings ratio, who the CEO is or what the sales figures are. He's only going to own these shares for a few seconds before selling them, hopefully, for 5 or 20 cents more than he paid. All he cares about is how the stock price is moving. At one point, Matt gestures at one of his lists of companies' fluctuating stock prices: "I'm watching SINA, Sina Corp., which is—I don't even know."

An enormous part of our financial system is just dudes making straight-up bets against one another. "This is gambling. It's educated guessing with an edge," Matt says. "It's just more prestigious than being a poker player." Day-trading firms are called proprietary trading firms by the people who work there. Everyone else in finance calls them arcades.

Studies have proved that you can't beat the stock market over time, and the more you trade, the less you'll make, because of fees. The best policy, as my dad taught me, is to buy boring index funds that mimic the entire market and hold them. But making 2 percent, the return on Standard & Poor's 500-stock index last year, isn't for Matt, who makes more than 400 percent on his money. He is doing something that's supposed to be impossible.

And he's going to teach me how, or lose a hundred grand trying. I pull up a chair next to his computer before the markets open, and Matt teaches me that the simplest and most important day-trading move is "trend following": If a stock is shooting up, buy some and ride it up until it falls. "Fading a move" is where you think a stock has ridden far enough up, so you bet against it by shorting it, hopefully predicting its downward movement. You can look for another person's large upcoming order at a specific price that hasn't been reached yet and use it as a buffer, so that if you're wrong and the stock hits that guy's price, you'll have time to get out while his big order is filled at that price. I cannot believe that no one has invented a more efficient system than capitalism.

Someone has, however, built a more efficient system than day traders. Guys now program computers to do the exact same thing Matt does, coming up with algorithms to find what day traders spot through intuition and experience. In 2010, 70 percent of all purchases and sales of all stocks and bonds in the world were made by high-frequency-trading programs, called algo-bots. And that figure has increased since then. Algo-bots place way more orders than they do purchases, canceling 90 percent of them nearly instantly, making their actual plans hard to read. Computer programs have also created ways to hide large purchases—called dark pools of liquidity—giving them another advantage.

Most important, the algo-bots can buy a stock in less than a millisecond. The usual amount of time the human brain takes to see something and tell a finger to hit a button is 250 milliseconds, I'm told by Doyle Olson, the president of Great Point Capital. "Some guys here are below 200 milliseconds," he says. But it's not nearly fast enough. Two years ago, a hundred guys sat in this office. Now there are 40. It's not only that the Great Recession caused America to stop investing in the stock market, severely limiting the action to gamble on. It's also that these 40 guys are getting replaced by technology.

That's why the day traders here talk about the flash crash like it was the Battle of the Bulge. On the afternoon of May 6, 2010, the Dow Jones Industrial Average suddenly dropped nearly 1000 points—losing about $1 trillion in value in its biggest intraday plunge ever. Then it gained nearly all of it back 20 minutes later. Several large companies had their stocks drop all the way to 1 cent for no reason. The high-frequency programs got triggered to either sell or stop trading, but the day traders soaked up the money the computers spit up. It was the day when the computers got their asses kicked.

During the market's free fall that day, Matt kept buying as he saw some blue chip stocks lose nearly half their value. At one point, in those minutes when the market was falling irrationally and Matt was buying, he was $90,000 down. "I get a little sick still, just thinking about it," he says. He ran to the desk of Adrian Nico, the firm's risk manager, and begged for more leverage, which Adrian gave him, allowing Matt to put $20 million of the company's money into the market. "It seemed like it was the end of the world. No one was buying," Matt says. "I feel really proud of what I did that day. I stepped in when no one was willing to." He made $220,000. Another guy at the firm made more than $2 million. Another guy was at the dentist.

SOURCE: IBISWORLD

When you first start working here, Great Point Capital lets you invest with its money. The firm gives you a salary and lets you keep a percentage of your winnings. If you keep losing, Adrian—a chubby, smiley guy in a button-down shirt—comes to your desk and sends you home. If you do well, you eventually get the deal Matt has: He invests his own money, keeps all his winnings, sucks up all his losses and pays the firm about $4 for every thousand shares he trades. In return, he gets to play with a lot more money than he puts in—the firm gives him leverage of 25 times his investment. It also gives him a great proprietary computer program to trade with (when you punch in your password, instead of seeing "******" you see "$$$$$$"), a bunch of other guys sitting near him to give him advice and that four-buck trading fee, which is lower than what he could negotiate alone.

It's 8:30 a.m. in Chicago when the opening bell goes off in the New York markets, and everyone in this quiet, dark room instantly gets an unprintable case of Tourette's.

The stock prices on Matt's screen are scrolling down so quickly, I cannot read them. All I know is that when he's ahead, one number is green; when he's behind, it's red. Matt is punching buttons hard and fast. I cannot figure out why his keys still look so new.

It's because, after an hour, the pounding stops. All the real action is in the first hour of trading, and the last half hour. In between, guys go to the gym, get lunch, surf the Web, throw around a Nerf football, or just go home and skip the last half hour of trading. But that first hour is intense.

Somehow, in the first 31 minutes, Matt loses $2,926. He is completely calm. He doesn't care much about money. He rents an apartment that he shares with his girlfriend, he doesn't own a car, and his diet consists mostly of protein shakes and chicken wraps. He could live the same exact way on the salary of the loser reading the stock news over the speakers. Though he's gambling his own money, it's only about 20 percent of what he's amassed; the rest is either in cash or in an indexed mutual fund. If he's bothered by the $2,926 he lost, it's not because it's $2,926, but because it shows that he played badly.

"I like this job because of the number aspect, the competition," he says. It's why he liked debate and poker in college, and why he's into first-person-shooter video games and has a fantasy football team.

Matt has six screens in front of him, the second-most in the office. The number of screens you have at a day-trading firm is a good approximation of how much money you make. A better approximation is this database Matt has of exactly how much money he makes. Over the past 200 days, Matt has somehow made about $3,000 a day in profits; after fees, he's taken home an average of $2,114 a day—which is about $528,500 a year. There were a lot of days when he lost $30,000 or $40,000, but his big days make up for it. Right now, though, he's having his worst month since he started day trading, down an average of $465 a day. It's only his third losing month since he started in January 2008. It sucks to come into work early every morning, do a really stressful job, and go home with a weekly paycheck of negative $2,325.15. It is even worse, Matt says, to try to explain that to your live-in girlfriend.

The last half hour of trading doesn't go much better for Matt. But after the market closes, Apple announces its quarterly earnings, and they're big. Matt pounds on his keyboard for 30 minutes of after-hours trading and erases all his losses, making more than $1,000 on the day. We talk for a while and leave the office at 5:30 p.m., the latest he has ever been there. That's the thing about day trading—there's no boss, no paperwork. Matt has never gotten a work e-mail, been on a business trip or worked a weekend.

"Matt says I definitely cannot trade it. *It's too unpredictable, too fast, too dangerous. He looks at me and realizes I am going to trade it."*

* * * * * *

AT 7:45 THE NEXT MORNING, I SIT IN FRONT OF the computer next to Matt, who has the eager chipperness of a man who went home in the black yesterday, not the dread of a man who is about to lose $100,000.

I am about to find out if I can use just my instincts and my guts to take money from other men sitting in front of some other computer with nothing but their instincts and guts. Matt flows the cash into an account on my computer and I instantly feel the pressure. I want to ask for less money, maybe just a couple of thousand, but I know that won't prove anything about my ability to handle the stress. And there's no time to change it now anyway.

The opening bell goes off on the TV screen showing CNBC above us, and Matt tells me to hold tight and avoid investing for the first few fastest minutes. But then I notice on one of the lists Matt set up on my screen that Teva Pharmaceuticals is hitting record highs. I want to just dip in and quickly ride the trend while it's going up. Only I press Shift+S to sell instead of Shift+B to buy and accidentally short 100 shares of Teva Pharmaceuticals. But my guess was wrong, and it's going down, so I actually make some money before I find the Buy button to get rid of it. But in my panic, I press Shift+B twice instead of once, so I actually do buy 100 shares of Teva Pharmaceuticals, and it's suddenly going up now, so I make some money that way, too. I'm good at this. And I don't even know the right buttons. Or how they can make pharmaceuticals out of hippie shoes.

Matt is too busy to notice what I'm doing, and in just a few minutes, I have swapped back and forth more than $150,000 of Teva and have made $40.70. It's a rush. I can't follow nearly as many stocks at the same time as Matt does, but I keep track of two of the ones on the lists Matt has set up for me: Abbott Laboratories and BorgWarner, which I assume is Time Warner's division that makes cyborgs. Unfortunately, I can't even handle watching two

stocks at once. I think my cursor is in the Abbott box, but it's really over at BorgWarner when I press Buy. And suddenly I own 100 shares of BorgWarner. I try to sell but accidentally press Buy again, so I've got more than $15,000 invested in cyborg manufacturing. I make $1.50 on the cyborgs overall.

I love this. I trade BAX, CPX, ILMN, ISS, PCP, TSLA and WLT—without knowing what any of them are. It is exactly the thrill I was hoping it would be. And then it stops. The first-hour morning action is over, and I've made Matt close to $100. Now I just have to wait until the closing half hour. Yesterday, Matt taught me the day-trading mantra: The best trade made in the middle of the day is the one not made at all.

Everyone in the office starts talking about the Chinese cloud-computing initial public offering. Matt tells me to stay away. It's going to be fast, hard to follow, and I could lose a lot of money. His money. But come on. China? Cloud computing? IPO? I am going to be rich! I buy a hundred shares at $20.50 each, and the numbers move so fast, I can't see if I'm up or down. I'm down—$100 down in five seconds. Matt tells me to sell, get out as soon as I can. It's the first day-trading rule I was taught: Get out when you're losing. But China! Cloud computing! IPO! I hear my heart beat. My investment is $300 down, and it comes back a little, and I Shift+S, so I wind up a little more than $200 down.

Now I'm down for the day. I hate computers and China and clouds.

I need to make up for my Chinese cloud-computing errors. I hear some guys in the row ahead of me talking about Quepasa, a Latino social-networking company, and I know from experience that Latinos are a particularly social people. I buy in as it shoots up. Then I hear the newsreader guy say something from the speakers above me about Microsoft, so I buy $16,000 worth of shares, riding it for a tiny spike. But I'm still in the hole when the closing bell rings.

I did fine. Matt still has nearly all his $100,000. I didn't freeze up when things moved fast. I didn't avoid the big chances. If anything, I took too much risk. Better yet, I liked it.

Vanishing Act

Some experts have argued that high-frequency trading played a role in sparking the May 2010 flash crash.

998.5
POINTS THE MARKET FELL

9%
SIZE OF DROP

As I'm starting to pack up my stuff, Matt tells me he's not done for the day. A few companies are going to be announcing their earnings after the markets close. And for some reason, we can still trade those stocks in after-hours trading. I do not understand the concept of after-hours trading. What's the point of closing markets if you're going to let people trade afterward? Is that loud clanging bell just a suggestion bell? If so, instead of a bell, shouldn't a middle-aged woman come to the floor of the exchange and say that it's starting to get dark out?

SanDisk, the leading manufacturer of flash memory cards, is about to announce its earnings. Matt says I definitely cannot trade it. It's too unpredictable, too fast, too dangerous. It's going to make that cloud-computing IPO look like an abacus IPO. Matt looks at me and realizes I am going to trade it. So he tells me I can only buy and sell in increments of 10 shares instead of 100.

I'm in the zone. I cannot go wrong with SanDisk, which is insanely volatile, fluctuating by more than $3 a share for nearly 20 minutes. I'm buying when it's going up, selling while it's going down, riding wave after wave. I manage to trade 1,040 shares—nearly $50,000 worth—possibly by not following Matt's 10-share rule. Thanks to SanDisk, I'm up $76.36 on the day, though, after my trading fees, that's just $20.60. Still, that's better than Bank of America made this quarter. Matt, however, has lost several thousand dollars today. Though it's several thousand minus $20.60.

At 3:30, I walk outside. After a day in the dark, the sun is blinding. I'm in the middle of Chicago, but everything feels slow. I want to trade more, gamble on the ponies, put so much of my savings into SanDisk and BorgWarner that they could buy spaces in their names. Maybe I have more desire for danger than I thought.

Adapted from* Man Made: A Stupid Quest for Masculinity, *by Joel Stein, published by Grand Central on May 15, 2012. Copyright © by Joel Stein. Printed by arrangement with Grand Central.

✓Yes

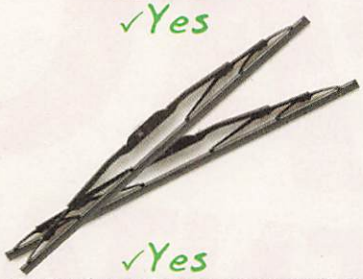
✓Yes

✓Yes

✓Yes

✓Yes

✗No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✓Yes

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✓ Easy To Use Website
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PACK MENTALITY

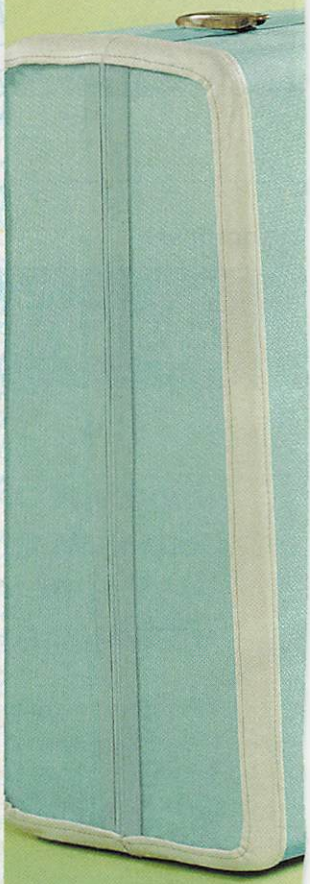
THIS SUMMER, VACATIONERS ARE FINDING MORE PLACES THAN EVER THAT ALLOW PETS. BUT DO YOU REALLY WANT FIDO HOVERING OVER YOUR FOIE GRAS? WHY PET-FRIENDLY BUSINESSES ARE MULTIPLYING LIKE BUNNIES AND RUFFLING CRITICS' FEATHERS.

BY ANNE KADET

Karen Goldberg may be single, but when she hits the road, she's hardly lacking for travel companions. Every year she joins her extended family for a long cruise or grabs a friend to explore new cities like New Orleans. Last summer, however, the 39-year-old CPA took a gamble and turned to someone new: Riley, her 86-pound golden retriever.

The plan was to spend $1,100 on a four-night stay at Canine Camp Getaway, a Lake George, N.Y., retreat for pets and their owners. But *retreat* suggests quiet—in practice, the lodge in the Adirondacks was more like a madcap convention for the pet set. At night Goldberg and Riley shared a room, but each had a double bed. By day, the two joined 40 other humans and 70 dogs for goofy bonding activities, from decorating homemade dog biscuits to making paw paintings and drinking beer at "yappy hour." Just like at a human summer camp, Goldberg says, cliques formed; the labs and retrievers would congregate poolside, while the border collies hung out at the advanced agility course and the hounds gathered for a scent-detection workshop. The humans? They spent all day talking about dog training, dog nutrition and, of course, their pet-centric expeditions. Clearly, it wasn't exactly the typical family vacation. "All the conversations revolved around dogs," she says.

Tales of pet pampering gone wild are hardly surprising in the age of Swarovski crystal collars and air-conditioned dog mansions. But for anyone out and about this summer, with or without Fido, it'll be hard to ignore the fact that dog mania has reached a tipping point. Upstanding citizens who might otherwise be considered perfectly lucid are taking the "animal companion" concept to a new level—bringing their pets to the movies, shopping and



STYLED BY BIRTA VON KAMPEN

Photo-illustration by Mark Hooper for SmartMoney

$210
DOGGY
STROLLER

$450
DESIGNER
PET
PURSE

GROOMED TO GO

GEAR LIKE THIS HAS HELPED TURN PET SUPPLIES AND SERVICES INTO A $17 BILLION MARKET.

$35
BACKPACK

$70
FIRST AID KIT
WITH OXYGEN
MASK

$35
ALL-TERRAIN
BOOTIES

$13
TRANQUILIZER
CHEWS

$20
LEATHER
PASSPORT
HOLDER

out for dinner in fancy bistros. And, in an economy where a four-legged customer is better than none, businesses are happy to accommodate them. Well-behaved canines are welcome at retailers like Apple, The Gap and Pottery Barn, while some restaurants and hotels go a step further, offering pet menus and puppy-sitting. Even tourist agencies are boarding the gravy train. Washington state's Yakima Valley Visitors & Convention Bureau, for example, just launched a website listing the area's dog-friendly wineries, restaurants, museums and stores. "We want to be known as a very pet-friendly wine destination," says CEO John Cooper.

There's a reason the hospitality and retail trades are slobbering over pet owners. Over the past decade, even as the economy tanked and pet-ownership rates flatlined, spending on pets rose 73 percent, to $51 billion. And marketers scrutinizing this phenomenon reached a new realization: People who treat their pets like family are an especially attractive demographic. According to analyst Michael Dillon of marketing strategy firm Dillon Media, 72 percent of the money Americans lavished on pets last year was spent by folks with no kids at home. These consumers, who have a lot of disposable income, are often loyal—and frequent—shoppers, says Dillon. At hotels, pet owners who bring their buddies stay longer. At restaurants, they're repeat customers. Love the customer's pet, say business owners, and you've got a patron for life.

It's a balancing act, of course. For every customer who insists on shopping and dining with Fifi, there's a diner with a dander allergy and a patron who'd rather not share the changing rooms with a Great Dane. Home Depot Canada rescinded its pet-friendly policy last year after a shih tzu bit a store associate on the nose. And a recent TripAdvisor survey found that while 57 percent of pet owners welcome animals in a plane cabin, the majority of nonowners prefer to see dogs stashed in cargo. But the critics may soon be outvoted by Americans who believe their pets deserve a spot at the lunch counter—and are voting with their dollars. Los Angeles retail consultant and interior designer Deborah Glovier takes Seven, her 103-pound Doberman pinscher, just about everywhere she goes: to brunch, the salon, shopping on Rodeo Drive. "If dogs aren't allowed," she says, "we won't go."

To truly experience life in the new animal kingdom, of course, you need to hit the road with a pet. That's why, in our role as one of our magazine's more recently minted pet owners, we found ourselves on the phone with United Continental, booking a trip to pet-friendly Portland, Ore., with Minnie, our excitable 19-pound border collie–papillon mix. After learning that we'd have to stick Minnie under the seat, we agreed to the suggested upgrade for extra legroom ($205). And at the airport, we discovered Minnie's carrier counted as a carry-on, so we spent another $50 to check suitcases. Then there was the $250 charge for her boarding pass. What started as a $750 round-trip fare turned into a $1,255 bonanza for United.

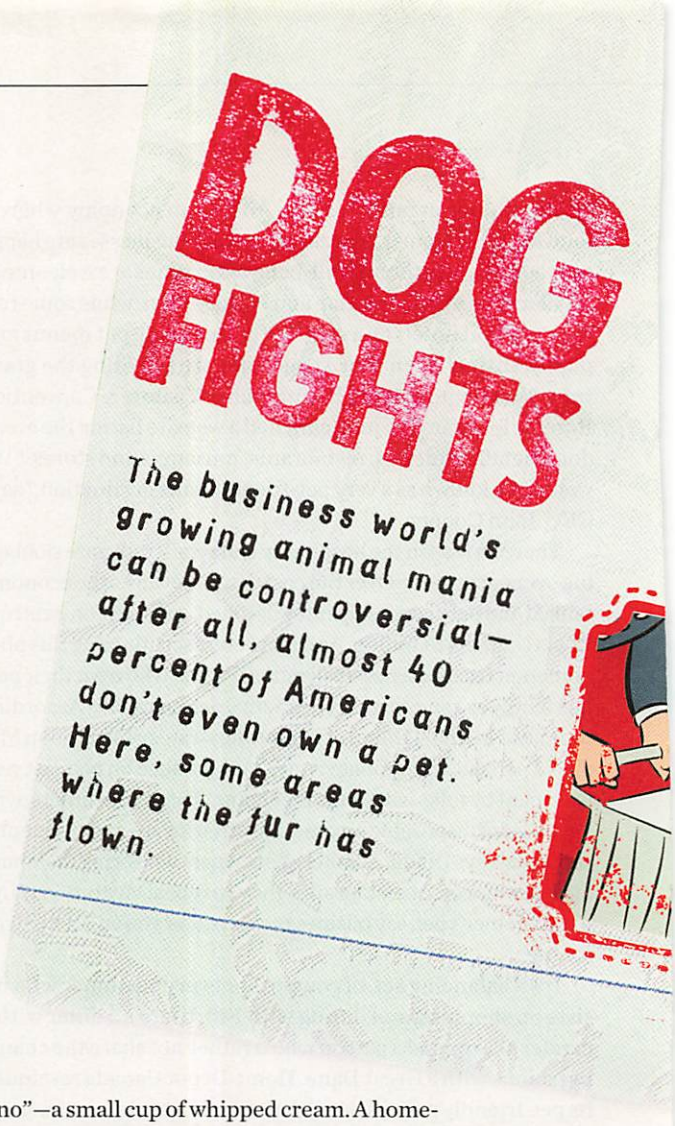
Tim Ford, president of Sherpa, a pet-travel-bag outfit that works closely with airlines, says there's a lot at stake. A major airline typically accommodates 500 pets a day, he says, and at roughly $150 in extra revenue per pet, it adds up—that's $27 million a year. No wonder all the major U.S. airlines now allow pets on board. Still, flying with your dog can be a nerve-racking experience. Would our furry buddy bark? Throw up? Explode in mid-air? Then there are the horrified looks from fellow passengers—it's worse than showing up with a baby. To appease pet-free fliers, most airlines limit the number of animals per flight and confine them to carriers. (For good reason: In 2010, US Airways had to ground a flight after a traveler let a terrier escape; it bit a fellow passenger and a flight attendant.) Perhaps the only positive aspect of flying with Minnie was getting waved past the nudie scanners at security. Even the Transportation Security Administration, it seems, draws the line at x-raying a border collie. (The agency says it doesn't x-ray animals, but their owners can still be scanned.)

But while the airlines appear to be accommodating pets only grudgingly, hotels are throwing a welcome party for the furry set. Mary Ann Dennis, VP at Caesars Entertainment, says eight of her outfit's Las Vegas resorts opened their doors to dogs last year, after a pilot program showed that the policy appealed to everyone from trendy singles to high rollers. Going dog-friendly required dozens of changes, ranging from the addition of pet-relief areas to rejiggering the reservations system. While it remains a small slice of the business—Caesars books 1,200 pet reservations a month on its 23,000 Vegas rooms—Dennis says it differentiates her brand from the competition. Besides, she adds, pet guests book slightly longer stays and may also book more frequently.

Although Caesars charges a $50 pet fee, a growing number of hotels do not—a surprising development, considering the cost of accommodating animals. David Berger, general manager of the Sheraton Miami Airport, says his hotel has no surcharge even though every room gets a rug shampoo, curtain steam cleaning and mattress-pad washing after a pet visit, which costs about $20 per room. It's worth it for the incremental bookings, not to mention the added excitement: The hotel says it recently hosted a penguin that slept in the shower on a bed of ice. Still, while Rover can stay at the Sheraton, he still can't get the penthouse—Berger says he limits pets to lower floors near the exits (closest to "relief areas"). And hotels in general tread a tricky line as they try to avoid affronting pet-free travelers. Most ban big dogs, and many frown on pets left alone in the room.

In Portland, we chose Hotel Monaco, which, like most hotels in the Kimpton chain, offers pet-sitting, bowls, treats and beds, along with—by special arrangement—pet massage, walking service and sessions with a pet psychic. Best of all, the place has its own director of pet relations, a 6-year-old yellow lab named Timmy who has his own e-mail address. Minnie

Photographs by John Kuczala for SmartMoney


DOG FIGHTS
The business world's growing animal mania can be controversial—after all, almost 40 percent of Americans don't even own a pet. Here, some areas where the fur has flown.

appeared to enjoy her stay: She promptly tore up her complimentary leopard-print squeaky bone, spreading the cotton stuffing all over our suite. She devoured the organic carrot biscuit (very Portland!), and held her tail high when the doorman greeted her by name. Dogs were welcome in the lobby, and Minnie spent an afternoon lounging on the plush carpets as the piano man sang Gershwin at the baby grand. One disappointment: Timmy. We were suspicious when his e-mail reply to a note "from Minnie" was cosigned by a human interloper. When we first tried to meet him, he was "busy in the back room learning the phone system." And when he finally made an appearance, he gave us a doleful look and stuck his nose in the trash can. Minnie, who takes a different approach to greetings (32,000 kisses!), looked a little hurt.

The pet-travel phenomenon has created all sorts of opportunities for clever entrepreneurs. Manufacturers offer accessories ranging from $200 strollers and booster seats to pet passport wallets and car hammocks. The number of online pet-travel directories has mushroomed, with developers churning out smartphone apps that locate the nearest pet-friendly restaurant, hotel or church. Then there's the boom in events catering to dog lovers. New York City accountant Erika Searle loves planning vacations for her terriers Ginger and Cubby. She's taken them on a canine cruise in Washington, D.C., (they have their own life vests); to doggy walkathons in Virginia and Maryland; and to BlogPaws, a Salt Lake City conference for pet bloggers. She recently attended a pet fashion show in Philadelphia, at which Ginger and Cubby wore custom dresses. A real highlight: Woofstock, an annual festival in Toronto where 300,000 dog lovers gather for pet tricks, high tea and costume competitions. "There's something every weekend," says Searle.

Maybe the oddest of the new businesses is the traveling pet nanny. Sit 'n Stay Global founder Carol Martin charges $500 a day to entertain pets when their owners attend conferences or go scuba diving. Trained by the American Red Cross in pet first aid and CPR, Martin and her team of five often accompany pets on private jets. Armed with a pet oxygen mask and doggy seat restraints, they serve the dog an airplane meal while the "pet parent" reads or works. Once landed, Martin, who says her firm worked with 150 clients last year, entertains the dog with a custom itinerary. She's taken a schnauzer to the Washington Monument, a poodle to the Colosseum and a Yorkie to the Louvre. She recently accompanied a couple and their Chihuahua on a trip to Colorado. The dog went skiing during the day with her parents, but when the couple went out on the town, she relaxed in the lodge with Martin, playing with puzzles, noshing on baby carrots and watching HGTV. "It's hard to amaze me anymore," she says.

No need for a nanny on our trip, during which Minnie had our undivided attention. Portland lived up to its pet-friendly reputation: A Starbucks barista offered Minnie a free "puppuccino"—a small cup of whipped cream. A homeless bottle collector gave her a chew treat and engaged her in a drunken game of patty-cake. At Powell's Books, the famed Portland megastore, we were surprised to be stopped by a manager: "No animals allowed in the store, period." Marketing manager Michael Drannen later explained that the store was dog-friendly until there were several incidents involving "non-customer-friendly animals." But Powell's was the exception: At a dozen other retailers, from Crate & Barrel, Anthropologie and West Elm to a bevy of local galleries, furniture shops and gift shops, and a bank, Minnie was greeted with smiles and pats.

Some businesses say a pet-friendly policy is simply a nice amenity. TD Bank, one of the nation's 10 largest banks, says its water bowls and organic biscuits are an effort to offer convenience in cities where people do errands while walking their dogs. The Container Store says its open-door pet policy helps prompt conversations with sales clerks. But there's a business benefit as well. Though about 40 percent of Americans own dogs, country-lifestyle retailer Orvis says dog owners represent 80 percent of its customer base. The company puts a heavy emphasis on canine culture, donating a portion of sales to dog causes and running an annual dog-photo catalog-cover contest. "It's, 'Be nice to my dog, and I'll be willing to spend more time and money in your store,'" says marketing director Bill Eyre.

Illustrations by Mark Matcho for SmartMoney

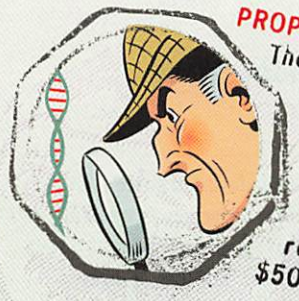
RESTAURANTS Almost all municipalities have health codes barring pets from businesses that serve food—though many towns are adopting exemptions that allow pet dining in outdoor cafés and on patios.

HOTELS To accommodate travelers who aren't thrilled about four-legged guests, some hotels limit the size of canine visitors and restrict dogs to rooms on the lower floors.

Entradas **Visas** Departures / Sorties / Salidas

PLANES More than half of non-pet owners frown on pets in the cabin, so it's not surprising that most airlines limit the number of dogs on board. American Airlines allows a total of seven pets per flight; JetBlue, four.

REDEFINING "SERVICE DOG" An example: Passengers who dodge airline pet fees with a therapist note stating that their Pekingese provides necessary emotional support. Some states are fighting abuses; in Missouri, it's illegal to impersonate a person with a disability to get service-dog accommodations.



PROPERTY ASSOCIATIONS The latest weapon in the pooper-scooper wars: PooPrints, which links "unscooped dog waste" to the guilty dog via DNA. It costs $30 to register each dog and $50 per analysis.

Of all places, restaurants may face the biggest hurdles on the pet-friendly path. The combination of food, animal hair and enclosed space still remains largely taboo: Most municipalities have health codes barring pets from indoor areas in restaurants. Dining alfresco, though, is a different story. Many towns now allow pets in street-side cafés and patios, and locales from Clearwater, Fla., to Santa Barbara, Calif., are revising their health codes accordingly. The National Restaurant Association says it has no stats on the topic, but accommodating pets at restaurant patios seems to be a trend. The latest escalation: the pet menu. The Living Room, in East Hampton, N.Y., offers Rover Easy (scrambled eggs) or a Weight Watchers Pet Treat (for the dog watching his figure) for $8. Art and Soul, a Washington, D.C., soul food restaurant, provides two cuts of steak and a $4 Bowser Beer.

Chef Didier Poirier, owner of 71 Palm, a French-American brasserie in Ventura, Calif., says he opened his patio to dogs as soon as the law allowed. While the pet menu doesn't generate substantial revenue, he says it made his place a hot destination for pet owners. It's listed on several online pet-travel directories; folks from all over California flock to his patio as they pass through town. It's also helped him cultivate a local following. Poirier says customers tell him, "I come back to you because you take care of my dog."

Still, there's a limit to the fun you can have dining with your pet. Was it our imagination or did the waiter at Blue Hour, Portland's fanciest pet-friendly restaurant, approach us warily, as if we were both wild animals? It's one thing to dine alone. Dining alone with your dog on a damp and chilly Oregon evening suggests you've lost your mind. It was our third meal of the day spent shivering at an outdoor café as the pet-free masses ate in their cozy heated dining rooms. Note to self: Dogs are magical, but they cannot control the weather. Our last Portland meal was enjoyed indoors, while Minnie made friends with the hotel's very own pet sitter. The cost: a very worth-it $10 an hour.

10 THINGS

Divorce Attorneys Won't Tell You

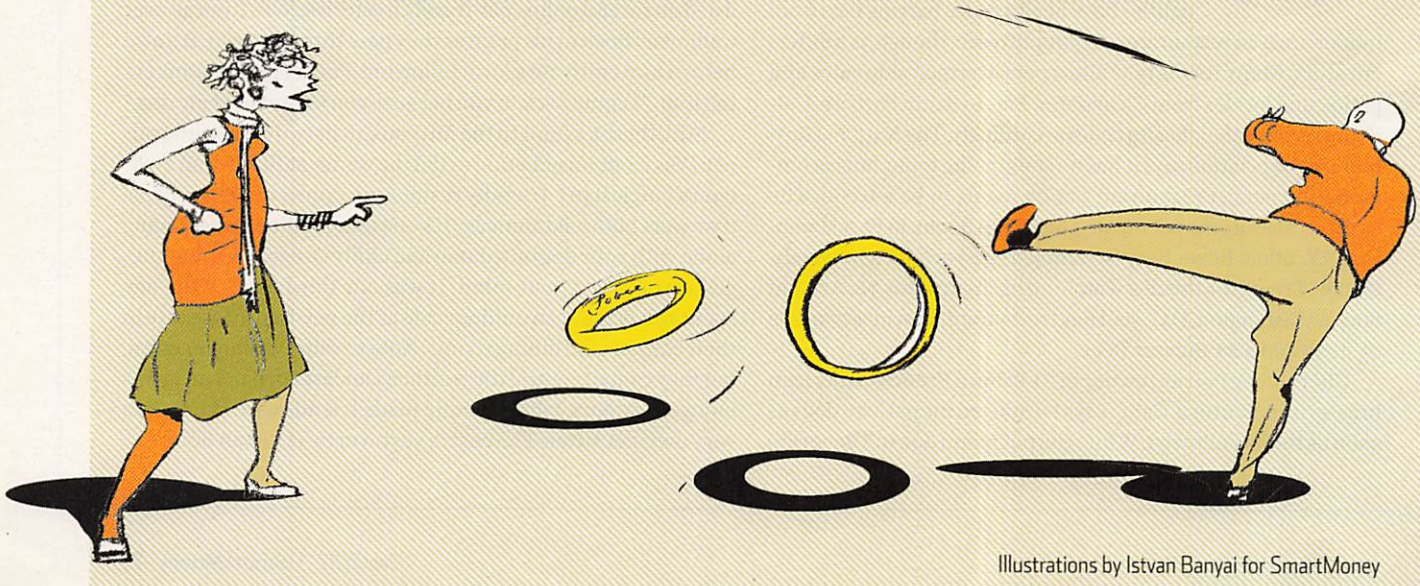
By Catey Hill

You'll pay more than the advertised rate—way more.

1 The U.S. divorce rate has nearly doubled since 1960, according to the National Marriage Project at the University of Virginia, and the number of divorce lawyers has grown apace. Though divorce rates leveled off during the recession, competition among divorce lawyers has increased—and billboards flashing QUICK AND EASY DIVORCE FOR $299 reveal how desperate for business they've become. Those teaser prices aren't a scam, says Randy Kessler, chair of the American Bar Association's family law section, but they usually apply only to parties who have already agreed on the terms and just need the lawyer to fill in the forms. It's clients who don't fall into that category who are likely to pay more. Of course, such come-ons are partly "just to get you in the door," warns Sari Friedman, a New York City matrimonial lawyer. The fine print, she says, will often reveal extra costs—from initial court fees to eventual asset-divvying lawyer fees. A more realistic final price tag? Anywhere from $15,000 to $30,000, with hourly rates typically running from $150 to $1,000.

I get sued—a lot.

2 San Diego resident Luwain Ng's 2008 divorce was tough, but it was nothing compared with the subsequent legal battle with her divorce lawyer, Patricia Gregory, who stole nearly $80,000 from



Illustrations by Istvan Banyai for SmartMoney

Ng's trust account. (In January, Gregory pleaded guilty to embezzlement and was sentenced to a year in jail; Ng says she has since recovered most of her money.) Ng isn't alone. Only personal injury and real estate lawyers get sued more than family law attorneys, a category that includes those who handle divorce and child custody cases, according to the American Bar Association. Indeed, lawsuits against family law attorneys more than doubled from 1995 to 2007, the ABA reports. One reason: In the past 20 years, the number of lawyers specializing in family law has increased. Plus, Kessler says, divorce situations can get pretty heated—it's "the nature of their work." So while a lawyer who has been sued isn't necessarily bad, he suggests consumers check with their state's bar association before hiring a lawyer.

My lack of fiscal know-how will cost you.

3 Divorces often require complicated financial calculations, like projecting the long-term value of a 401(k). But finance isn't typically part of the law school curriculum. It's a huge problem, says Jeffrey Landers, a New York City financial adviser, "because outside of custody issues, divorce is mostly about financial matters." While many lawyers do tell clients to hire a financial professional, some don't—and settlement mistakes can cost clients thousands of dollars. Still, the price of hiring a divorce finance pro can range from $4,000 to $25,000. And a forensic accountant—who can identify and value assets—generally charges at least $5,000, says Thomas Reck, an accountant and partner at WithumSmith & Brown in Paramus, N.J. That's why it's important for those going through divorce to do a cost-benefit analysis. Says Zachary Smith, president of Vox Law in Minneapolis: "People with fewer assets and little debt may not need to spend the money."

I make promises I can't keep.

4 Of course, it's unethical for lawyers to guarantee a certain settlement. Each state has its own rules of professional responsibility, and violating them can result in sanctions from the bar. But it still happens, because lawyers want to gain their clients' confidence, says Bari Weinberger, a matrimonial lawyer in Morris County, N.J. And by some estimates, up to 50 percent of all client complaints stem from a failure to meet their expectations. Even if a lawyer doesn't outright

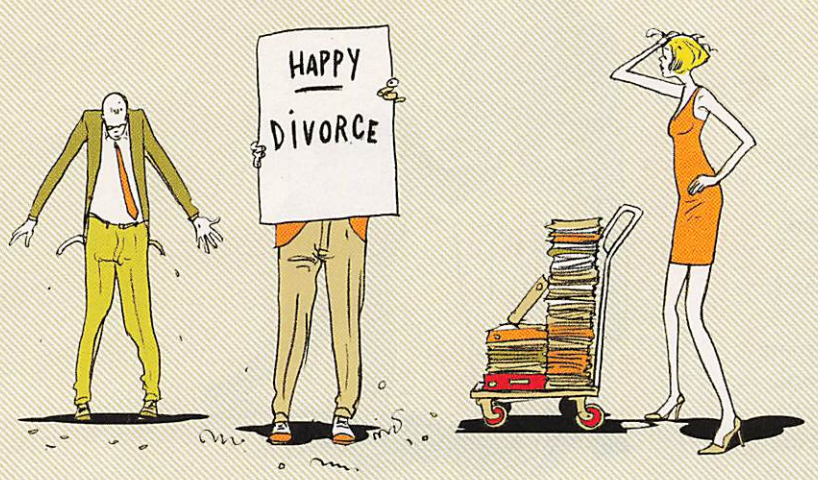
promise a specific outcome, strong hints can be detrimental to the client's wallet. When Minneapolis small-business owner Christine Clifford was in the midst of her second divorce, she says, her lawyer said things like "you have a very compelling case" and "a very good chance of getting a financial settlement." In the end, she ponied up $70,000 in attorney's fees and had nothing to show for it. (Her lawyer declined to comment.) It is appropriate for a lawyer to express the possibility of success, says Weinberger, but "if anyone guarantees you anything, run."

I've only handled a couple of divorce cases. Ever.

5 A lot of lawyers are general practitioners, handling everything from personal injury to estates to divorce. But a general practitioner may handle only a few divorce cases in his or her entire career. "Law is very vast with a lot of nuances," says Friedman, the New York lawyer. "You need a lawyer who knows the law and has seen a lot of these nuances." One place to find them: the American Academy of Matrimonial Lawyers' website, aaml.org. Lawyers in the association are required to spend at least 75 percent of their time on matrimonial law issues and have at least 10 years' experience in the subject (or with five years' experience, to spend at least 90 percent of their time on such cases). Matrimonial lawyers say clients benefit from their expertise. "You go to a cardiologist for your heart problems," says Weinberger.

Prepare for plummeting income.

6 During Amy Zellmer's marriage, her husband had the "big job" that paid for their household expenses, while she cultivated her Minneapolis



photography business. When the couple divorced, Zellmer fell into dire financial straits. "I had to drain my IRA account just to stay afloat," she says. And hers isn't an uncommon story: Households with children in which the parents divorce and remain divorced for at least six years face a 40 to 45 percent average drop in family income, according to the National Bureau of Economic Research. Divorcing or separating mothers are also nearly three times as likely as married mothers to end up in poverty, according to a 2011 study by the Family Research Council.

Go cry somewhere else.

7 The financial strain of a divorce pales in comparison with the emotional toll. Twenty-eight percent of people age 40 and up experience depression following their divorce, while 63 percent of women and 44 percent of men have high levels of stress, according to an AARP study. Elizabeth Lombardo, a psychologist and the author of *A Happy You: Your Ultimate Prescription for Happiness,* says it's an emotional roller coaster: "At first, you may be excited, but then there are a lot of negative emotions and consequences that can adversely affect all aspects of your life." But a lawyer's isn't the ideal shoulder to cry on. "They may let you vent," says therapist Sharon Gilchrest O'Neill, author of *A Short Guide to a Happy Marriage*, but they aren't trained to offer support.

You may not even need me.

8 Facing her third divorce, dating-site founder LaVonya Reeves decided to skip the lawyer. And she didn't regret it: "It saved me a ton of money," she says. Amicably divorcing duos like Reeves and her ex—who have no children, shared assets or debts, and who are able to support themselves without each other's help—can skip attorneys' fees and opt for mediation or self-representation, pros say. The National Conflict Resolution Center estimates that divorce mediation costs $2,000 to $5,000 a couple, a fraction of the price of litigation. But while lawyers are optional, using one is like having an insurance policy against mistakes, says the ABA's Kessler. Kathy Minella, a family law attorney in San Diego, says there's a middle road: Spouses can try settling as much as possible between themselves and through mediation before they begin paying their lawyers.

I don't have time for you.

9 Many divorce attorneys have yet to recover their prerecession support staff, so they're handling many of the office duties themselves. "You can wait for days to get a call back," says Erica Manfred, author of *He's History, You're Not*. Not only did the ranks of the legal profession diminish by 4 percent from 2007 to 2011, but hiring is still sluggish, according to the Bureau of Labor Statistics. And lawyers may soon have even less time for each client, because some experts expect the divorce rate to spike in the near future. If the economy continues to rebound, those who put their divorces on hold during the recession—an estimated 38 percent of currently married Americans—may now go through with them, says W. Bradford Wilcox, director of the National Marriage Project.

I'm dragging my feet.

10 There's a correlation between having an attorney and having a long legal battle. Divorces in which both parties have a lawyer take nearly four months longer than when both don't have legal counsel, according to a 2010 study by Marquette University Law School. One possible reason: Those most likely to hire counsel have "complicating factors such as higher husband income, longer marriage and minor children," according to the study. But the researchers also concluded that "it is possible that lawyers deliberately extend the process so as to collect higher fees." Ann Bradley, author of *Divorce: The Real Truth and Hidden Dangers,* goes a step further: "Some lawyers add fuel to the emotional drama to keep you fighting." Kessler disputes the idea that lawyers drag out divorces to extend fees. It's their job, he says, to be thorough—to avoid mistakes. And that takes time.

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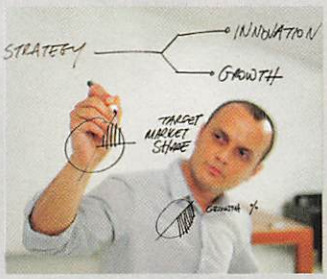

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Fantasy foosball: A $16,800 gaming table.

Photograph by James Day for SmartMoney

The Convertible Question

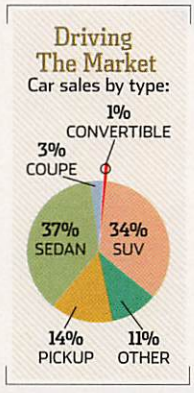
Even as the auto industry improves, convertible sales have stalled. Could the drop-top be headed for the big parking lot in the sky? By Anna Prior

RUSSELL WILD CAN still picture his first convertible: a 1968 Mustang that he tooled around in as a 20-something, with the top down and Supertramp blasting on his stereo. So when the 56-year-old investment adviser from Allentown, Pa., started car shopping earlier this year, he couldn't help but take a peek at today's drop-tops.

But while he remained drawn to the cars' sporty look, Wild soon realized he wouldn't be reliving his youth. Shopping around, he didn't see a single model that managed to tick off all the must-haves on his list: reliability, affordability and gas efficiency. What's more, he began to remember that his Mustang wasn't all tight turns and warm breezes; the car was also broken into—not once, but four times. In the end, Wild brought home the anticonvertible, a sensible Subaru sedan. "Sometimes I think it'd be fun to own one again, but then I think about all those stereos I lost," he says.

Can you feel the wind in your hair? It's hard to think of anything that screams "summer!" louder than a convertible. But while Americans might still fantasize about tooling around the neighborhood with the top down, they're not opening their wallets to make that dream a reality. Convertible sales, which typically make up a minuscule 2 percent of the car market, fell even further in 2011, to just over 1 percent. And the drop-off comes as sales should be accelerating; new-car sales turned around last year and are expected to hit 14.4 million units this year. The problem, say analysts, starts with the sticker price. A convertible Ford Mustang, for instance, costs about $5,000 more than the standard coupe. The cars have also stalled when it comes to design and innovation—which might be one reason they're not drawing younger buyers. Indeed, less than 5 percent of convertible buyers were under the age of 35 last year. "Convertibles are a symbol of the baby boom generation," says Jessica Caldwell, senior analyst at Edmunds.com. "Gen X and Y don't feel the same."

Not surprisingly, the economic downturn has prompted drivers to home in on practicality and affordability—not exactly the biggest strengths of a model that's often a second (or third or even fourth) car. The struggles of



2012 Nissan Murano CrossCabriolet
Starting Price: $45,400
MPG: 17 city, 22 highway
It's a convertible! It's an SUV! Actually, it's both. The Murano pairs unusual looks with features like all-wheel drive.

PHOTOGRAPHS BY DRIVE IMAGES/TRANSTOCK

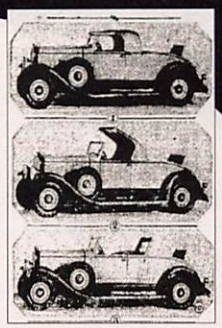
2012 Fiat 500c
Starting Price: $20,200
MPG: 27 city, 32 highway
This Italian import has retro style, and the top can be dropped even when cruising along at 50 mph. Just don't forget to pack light—it is one of the smallest cars on the road and has a tiny trunk to match.

2012 Volkswagen Eos
Starting Price: $35,100
MPG: 22 city, 29 highway
The Eos has a one-of-a-kind hardtop with a built-in sunroof. But some say it's pricey, at roughly $18,500 more than the similar-size Jetta.

Time Lane

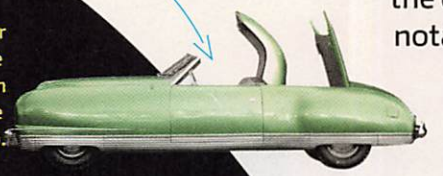
Below, a look at a few of the convertible's most notable mile markers:

1904: The "California top"—a detachable solid roof—debuts at the fourth National Automobile Show.



1931: First retractable hardtop is invented by B.B. Ellerbeck.

1940: Chrysler builds the first modern retractable hardtop.



1955: Ford introduces its Thunderbird convertible.

1964: First Ford Mustang convertible hits the highway.

1976: Barbie gets her famous pink Chevrolet Corvette, the Starvette.

1982: Lee Iacocca resurrects the American convertible with the drop-top Chrysler LeBaron.

the automotive industry have also played a role in the convertible's fall from favor, say analysts. During tough times, makers often scale back on things like how many different body types they'll produce for a single model, and convertibles are often the first to get chopped, says Tom Libby, senior analyst at Polk's North American Forecasting Practice. The cars have also proved to have their own particular—and persistent—design bugaboos, from mechanical weak spots to limited trunk space (that top has to go somewhere, after all).

Still, car companies maintain that the days of pulling into the driveway with a freshly tanned bald spot are far from over. A handful of makers are trying to inject some new life into the model, tweaking the design to appeal to more-modern-car buyers (think electric models). Others are tackling the convertible's graying image; Chevy, for one, splurged on a Super Bowl commercial this year that features an ecstatic college grad who is under the (mistaken) impression that his parents are giving him a topless Camaro. It all boils down to a simple question, say industry watchers: Can the convertible pull off a U-turn?

The convertible has taken some hard corners over the years. Americans fell in love with the cars during the *Mad Men* era, when Detroit was cranking out everything from cheap and tiny drop-tops like the $2,000 Studebaker Lark to boat-like classic Caddies, and convertibles accounted for a record 6 percent of all car sales. Then came the spiking gas prices and new safety standards of the '70s, which nearly spelled the end for the model. (Cadillac even marketed the 1976 Eldorado as "the last convertible in America.") The model has edged back since then, but experts say it hasn't regained its place as an industry pace car.

Nissan is hoping to challenge that idea with its Murano CrossCabriolet. The car, which starts at $45,400, is a mash-up of a convertible and an SUV—a two-door with an actual trunk and surprisingly roomy seating for four. Mike

Drongowski, senior manager of product planning for Nissan, says the company wanted to create a practical car that would appeal to empty nesters and young families, and purposefully swapped sporty looks and handling for an all-wheel-drive model that rides high off the road like a typical SUV. Analysts say they've never seen anything like it—though, admittedly, not everyone thinks that's a good thing. "It's a polarizing car," says Edmund's Caldwell.

Other automakers have stuck to more-gentle tweaks. Hardtop roofs, which used to be seen mostly in luxury cars, are now starting to trickle down into somewhat more-affordable models, such as the Chrysler 200 ($27,600) and the Volkswagen Eos ($35,100). Hardtops boost a car's practicality factor by sealing up the cracks that can make convertibles a winter driver's nightmare. They can also deliver a quieter drive and, since they're more substantial than fabric models, can help prevent break-ins, says Jesse Toprak, vice president of market intelligence at auto site TrueCar.com. Meanwhile, brands like Fiat and Mini Cooper have focused on the aesthetics, hoping to revamp the convertible's dated image and target hipper buyers with playful designs and celebrity-studded ads.

Gerardo Acosta-Meza says his new Fiat 500 convertible manages just the right mix of good looks and technical firsts. The San Diego hairstylist says he was originally drawn to the car's classic lines, but it was a Fiat innovation that really won him over: The 500 has a retractable roof that the driver can slide back with the push of a button—even when the car is zooming down the freeway at 50-plus miles per hour. "That's my favorite thing, that I can open it when the feeling strikes," says Acosta-Meza.

Still, some experts say the convertible has a rough road ahead. For one thing, the move toward hardtops has, in some cases, made the model's persistent space problem even worse. The hardtops are generally bulkier than the fabric versions, eating into precious trunk or rear-seat real estate. Building a convertible has also remained more complicated (read: expensive) than building other vehicles, so drop-tops often cost $5,000 to $10,000 more than their sister models—an issue that has become more noticeable as overall car prices have soared in recent months.

For Steve Berenbaum, the issue is even simpler: Just how often are you actually going to convert your convertible? The retiree, who splits his time between the Toronto suburbs and Florida, owned a BMW 328i Cabriolet convertible for four years and says he was planning to replace it with a similar Beemer this year—until he did the math. Berenbaum, who says he drove the car nearly every day, ran a few mental numbers and realized he put the top down only about 20 times last year. "It wasn't worth having less space and comfort," he says.

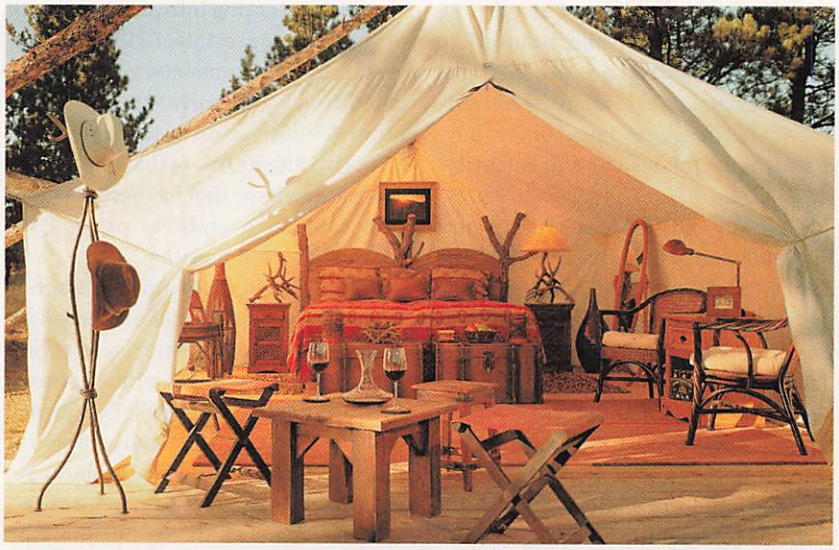
Of course, for some drivers, the flash and freedom of the convertible will always outweigh any practical concerns. Little wonder that there's one market where the drop-top still reigns supreme: "A convertible just screams midlife crisis," says Subaru owner Wild.

PHOTOGRAPHS BY RON KIMBALL/KIMBALL STOCK (MUSTANG); MATTEL (BARBIE & CORVETTE); SIRACUSA PRODUCTIONS/TRANSTOCK (LAND ROVER)

1991: Susan Sarandon and Geena Davis make movie history when they drive their blue Thunderbird convertible into (spoiler alert!) the Grand Canyon in *Thelma & Louise*.

1999: Sure, the Aston Martin gets all the attention, but James Bond drove a number of convertibles over the years, including a BMW Z8 in *The World Is Not Enough*.

2012: Land Rover debuts its convertible SUV concept car at the Geneva Motor Show.



Camping Cleans Up

$

NOT BAD

High-End Tent

CAMPERS WHO HAVEN'T hit the great outdoors since most tents were little more than a glorified tarp are in for a pleasant surprise: The latest versions are more spacious than a New York City apartment, are tall enough to stand in and come with extra vestibules for stashing gear. Eureka's $420 Grand Manan Tour, for one, has a screened-in room to lock out bugs and an awning sufficient to shelter a picnic table. (The downside: Commode not included.)

$$

GETTING FANCY NOW

Camping Resort

PREFER TO LEAVE THE TENT-PITCHING to the pros? At a luxury camping resort, vacationers who prefer their nature without the whole distasteful "roughing it" thing can pair activities such as fly-fishing with hotel-style amenities like furnished tents and gourmet grub. Montana's Paws Up ranch resort, for example, offers a tent suite with heated floors and a butler for around $1,800 a night.

$$$

LIFE-CHANGING

Custom Luxury Tent

SLEEPING ALFRESCO DOESN'T need to be a vacation-only indulgence. Exclusive Tents, based in Belize, will erect a permanent luxury tent, complete with a porch, multiple rooms and a full bath, right in your backyard. The company's most popular model starts at $25,000, though the more elaborate versions (including tents built on enormous river rafts or perched in the tops of trees) can easily hit six figures—before installation.

—Tania Karas

YOUR MONEY'S WORTH
SLEEPING BAGS

▲ WORTH IT

Feathered Friends Hummingbird $380

Even summer nights can get nippy if you're sleeping on the ground. This hooded, mummy-style sleeping bag is a slim 29-inches wide, designed to seal in body heat and fend off nature's chill. With a water-resistant exterior, it weighs just under 2 pounds and folds down to the size of a book.

▼ NOT WORTH IT

Marmot Pinnacle 15 $360

This bag is more than a pound heavier and doesn't have a water-resistant shell. It's also nearly 5 inches wider, which experts say can make for colder nights, because more body heat will be needed to warm up the extra space. Marmot says its roomier bags are meant to fit all body sizes. *—T.K.*

PHOTOGRAPH COURTESY OF THE RESORT AT PAWS UP (TENT)

"Someday, your mortgage rate could depend on your number of Facebook pals."

ANNE KADET is a senior writer at SmartMoney and the Metro Money columnist for *The Wall Street Journal.*

FROM THE Greek Olympics to SAT scores and rankings of the world's richest billionaires, humans have long delighted in rating and grading each other. So it's no surprise that in A.D. 2007, humankind invented the online-influence score—a measure of how much attention folks garner with their tweets, posts and LinkedIn updates. Think of it as the social-media credit score. Someday, your mortgage rate could depend on your number of Facebook friends.

It started innocently enough. Tech outfits like Klout, PeerIndex and PeopleBrowsr came up with a fun way to measure a person's online influence. Typically, the companies calculate a score based on how many followers you have on services like Facebook and Twitter, how many followers your followers have, and how often people retweet or repost your updates. On Klout's scale of 0 to 100, the average person scores a 20; Martha Stewart has a 71; the glamorous Mitt Romney, an 85. Companies have been using the scores to identify influential consumers and ply them with perks in hopes of nabbing a flattering mention. Audi invited individuals with high Klout scores to test-drive its 2011 A8, for example. Reebok offered free shoes to fitness influencers through PeerIndex.

But humans can't resist a metric, and lately, influence scores have been popping up in the strangest places. While it's still largely a bit of a stunt, folks are now using them to select party guests, conference speakers and beta testers. E. Jean Carroll, cofounder of dating service Tawkify, says her company uses Klout scores to match partners. High scorers usually hit it off: "They're very clever, very attuned to culture and very up on the news," Carroll says. Folks with low scores, one presumes, can pair up and spend the evening staring at the wall.

More than **100 mil.** people have a Klout score.

No harm there—no one's forced to join a dating service. But some companies are using the scores to determine everything from sales deals to response times. Gilt, the online fashion outlet, recently offered discounts to customers based on their Klout score; Capital One offered extra bonus miles to its highest-scoring customers. Klout says some companies look at scores to determine who gets priority service at call centers.

And there's at least one banking start-up planning to factor influence scores into its rates and fees. Movenbank founder Brett King says clients with high scores are probably a better lending risk—after all, thousands of followers trust their judgment. And they're valuable customers—if they're happy with a service, they tweet about it.

Influence scores are even creeping into the workplace. Recruiters won't admit it, but they're using these scores in their hiring decisions, especially when it comes to advertising and marketing jobs where online prowess and connections are prized, says John Sullivan, an HR consultant and management professor at San Francisco State University. Hiring can be maddeningly subjective, he says, so a clear-cut metric such as an influence score is irresistible: "We like data."

Does this mean we should all be furiously tweeting and friending in an effort to avoid career failure and bad service? "It can't hurt," says Sullivan.

Oh, yes, it can! For some of us, the mere prospect of tweeting feels downright painful. But maybe it's a blessing in disguise. If the online glitterati are all dating and hiring each other, maybe they'll leave the rest of us alone. And then we'll be free to contemplate our high interest rates and long hold times—in blissful, tweet-free silence.

For more of Anne Kadet's Tough Customer columns, visit SmartMoney.com.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

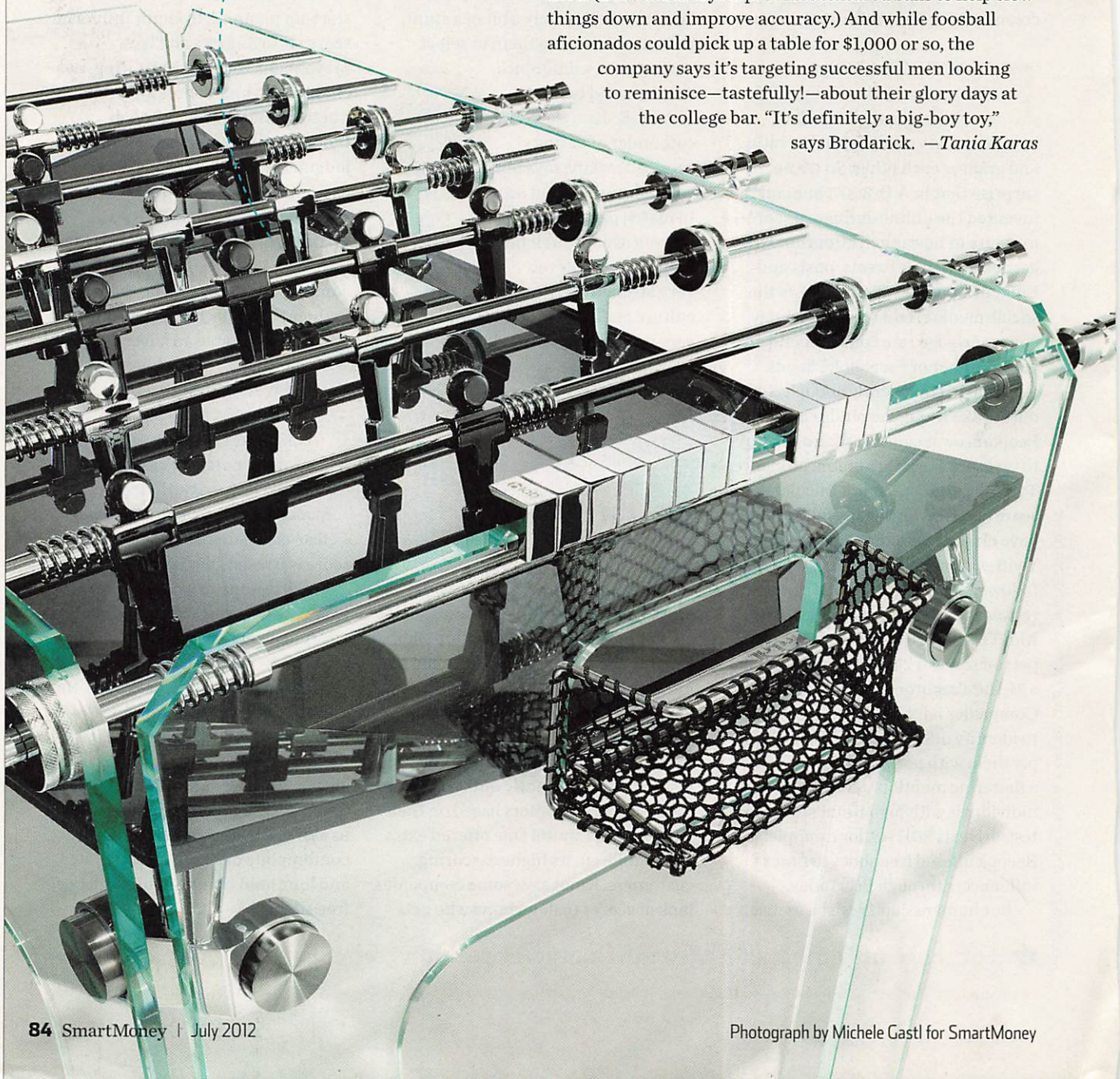
Dumb Money

Foos of Fortune

The Goal: Call it a frat-house objet d'art: A pair of Italian firms have given the humble foosball table a high-end makeover—complete with a new $16,800 price tag. The crystal table is a "design piece" worthy of a spot in even the poshest living room, says Gregg Brodarick, cofounder of manufacturer B.lab Italia. The game's figures, rods and handles are made of chrome-finished aluminum, and the transparent crystal table not only looks cool, says the company, but also allows competitors (and spectators) to get an unobstructed view of the action. Italian artisans handcraft all the parts, and production takes six weeks. "People regard it as a showpiece," Brodarick says. "But it's perfectly playable."

150,000+
Number of foosball tables sold each year in the U.S.

The Reality: The table's luxury materials are lovely to look at, but pros say they don't necessarily equate to a better game. A textured playing field and lightweight game pieces improve player control, says Larry Davis, former president of the U.S. Table Soccer Federation, adding that players might have difficulty with some maneuvers on a crystal field. (B.lab Italia says it provides textured balls to help slow things down and improve accuracy.) And while foosball aficionados could pick up a table for $1,000 or so, the company says it's targeting successful men looking to reminisce—tastefully!—about their glory days at the college bar. "It's definitely a big-boy toy," says Brodarick. —*Tania Karas*



Photograph by Michele Gastl for SmartMoney

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Angie Hicks, Founder

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THE 18-HOURS STRAIGHT-THROUGH ROAD TRIP
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THE SCENIC OVERLOOK
THE "HEY, LOOK, THERE'S A MOOSE" DRIVE-BY
THE WHITE-WATER RAFTING ADVENTURE
THE COLLEGE-FOOTBALL TAILGATE
THE RIDE HOME FROM THE DUDE RANCH
THE RUN TO THE DOG PARK
THE ROAD TRIP

THE SUV / MADE BETTER

The redesigned Pilot combines rugged utility, smart functionality and Honda innovation. There's room for 8, an available power tailgate, 25 mpg highway,* a newly refined interior and an updated exterior. Making the Pilot the SUV made better.

theHondaPilot

pilot.honda.com

*18 city/25 highway/21 combined mpg for 2WD models. Based on 2012 EPA mileage estimates. Use for comparison purposes only. Do not compare to models before 2008. Your actual mileage will vary depending on how you drive and maintain your vehicle. ©2011 American Honda Motor Co., Inc.